

GLOBALIZATION AND THE WASHINGTON CONSENSUS

GLADYS LECHINI
[EDITOR]

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WASHINGTON CONSENSUS**

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DEVELOPMENT IN THE SOUTH**

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WALDEN BELLO

VIRGINIA MIRALAO

UTSA PATNAIK

ROMER CORNEJO



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INTRODUCTION

GLADYS LECHINI

THIS BOOK IS the result of a Workshop organized in Caracas in 2006. It is one of the byproducts of the first phase of a three year academic South/South collaboration project carried out by CLACSO, CODESRIA and APISA during the period 2005-2007, thanks to the generous support of the Swedish International Development Agency.

The project is many sided and quite comprehensive, and it was designed to set up and, in some cases restore, the culture of structured scholarly networking among regional and sub-regional social science research institutions in Latin America, Africa and Asia.

The objective is to improve the reciprocal understanding of these regions and, at the same time, to contribute to the production and dissemination of relevant knowledge in the South, useful to understand and solve regional challenges and encourage the adoption of new policy directions. Through the organization of workshops and Summer Institutes in the three continents the project fosters the circulation of ideas and research findings in the academic media as well as in the public space of the concerned regions. The project also tries to make an

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impact in the scholarly discussion going on in the North, usually very poorly informed about realities and theoretical and methodological approaches being used in the South. The outcome of these collaborative activities is published in the form of books and occasional papers.

During the above-mentioned seminar in Caracas, scholars coming from different regions of the South shared ideas and experiences on common realities and problems, learning about similarities and differences, compatibilities and contradictions on issues concerning mainly with themes related to the international financial architecture and its influence on democratic stability and the prospects of development in the South.

As it was stated during the discussions, the policies of structural adjustment were introduced in the early 1980s as an all-embracing framework for “reform” (“market-friendly” reforms) within which the countries of the South would surely overcome their traditional problems of development. But, rather than helping to solve them the orthodox recipes of stabilization and structural adjustment became major factors in the dynamic of crises and decline experienced, with few exceptions, in most countries of the South, reinforcing existing difficulties and producing new ones of their own.

In this adjustment process a key instrumental role was played by the International Financial Institutions (IFIs). In fact, agencies like the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO) and, in our regions, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank all played a dual role of paramount influence in domestic political processes. On the one hand, an economic role, forcefully promoting and implementing –sometimes even contributing with their own staff to the state bureaucracies in charge– the neoliberal policies in a whole range of markets and economic institutions; and on the other hand, a political role, helping to “discipline and align” resistant national governments within the narrow limits established by the Washington Consensus.

Within this context, these financial institutions became critical avenues for the advancement of an international hegemonic structure –led by global dominant economic and political forces– into the policy-making and the domestic agenda of supposedly sovereign states, determining new forms of subordination and control. This asymmetrical network of social, political and cultural relations has prevented the countries of the periphery from implementing sovereign decisions in crucial areas of governance, with the consequent erosion of their democratic legitimacy. One of the most important consequences

of the policies of the Washington Consensus has been the undermining of the state, an institution that was relentlessly demonized and attacked, and multiple efforts were made to de-legitimise it as a player in the development process. But perhaps even more disturbing were the systematic erosion of effective policy making and policy capacities and the relocation of key macro-economic decision-making levers in the markets and in the hands of foreign international financial institutions, jeopardizing both democratic consolidation and development in the South.

In this regard, a relevant research question from the point of view of our countries relates to the conditions under which the long expected democratization could produce a fairer distribution of resources and promote the dissolution of entrenched dependency structures. Another pertinent issue confronted by the countries of the South and very hard to deal with is the challenge posed by the need to guarantee the state-building process against the background of a generalized, although highly unequal, erosion of sovereignty. A clear understanding of this complex background is absolutely essential to realize the enormous difficulties facing democratic policy making in Third World countries.

That is the reason why the good performance and legitimacy of democratic governments in Africa, Asia and Latin America requires a new thinking and a new theoretical framework. Consequently, if countries are cannot be sovereign in international affairs, they can hardly honor popular sovereignty at home, which is just another name for democracy. On the other hand, the conditionalities of the international financial institutions have led to increasing levels of poverty and exclusion, provoking not only a negative performance in economic terms but also negatively affecting chances of good governance and democratic stability and legitimacy. The quest of overcoming orthodox policies is a relevant matter for the future of democracy and development in the South.

With these challenging topics in mind, scholars belonging to the three regions of the South have discussed in Caracas general issues concerning with the global processes and the role of international financial institutions in shaping the new international structure. They also examined more specific problems related (a) to the impact of the structural adjustment policies on poverty and social exclusion; (b) to the difficult task of bringing about the reconciliation of democracy and development in Africa, Asia and Latin America; and (c), the concrete examples of Mexico, Ethiopia, Mozambique, India, Philippines, China and Taiwan. In the next pages a succinct summary of the different presentations will be given.

In his paper on “Global processes and its effects on Latin America. Polycentric versus Perturbed Worlds”, Marco Gandásegui (jr) refers to the ever expanding capitalist system and its ties with the Nation-State and the possibilities for political organizations in the countries of the South to act independently, with reasonable margins of autonomy. Within this context Gandásegui proposes to delink from capitalist relations and start building alternative strategies for development. For him, delinking implies a political option taken by a leading social class or class alliance to unshackle the economic and ideological bonds imposed by the core capitalist powers and to seek new avenues towards the creation of self-centered national projects. Yet, he wonders whether delinking could be a step towards deepening capitalist relations or the first step in the road towards socialism.

Gandásegui resorts to Samir Amin theories, for whom the only alternative open to countries at the periphery is to delink from a world-system that presents no future to them. If new alternatives appear on the horizon, several centers could then compete with their own dynamic, creating a polycentric world. Amin also considers the possibility of an intermediate road, one that would lead to a new phase of world capitalist expansion based on accelerated accumulation of an integrated periphery. Samir Amin’s theoretical proposals are precisely what worry US strategists the most, as they expect that US could continue controlling events in Latin America as it has done since annexing half of Mexico in 1846. Despite the fact that the US is planning to “redraw” the political boundaries with its Southern neighbors (via extension of its immigration and commercial prerogatives, and so on) it is up to the Latin Americans to build their own alternatives. Gandásegui concludes that this challenge will therefore only be taken up by the Latin American peoples when the necessary popular alliances enable them to delink their development from the demands of transnationalization.

In her presentation on “International Monetary Fund: from stability to instability. The Washington Consensus and structural reforms in Latin America” Alicia Girón’s main assumption is that the Washington Consensus and its consequent reforms have jointly contributed to aggravate the instability in Latin America within a democratic context.

For Girón, the development of capitalism and the economic reforms of the Washington Consensus have deepened the transformation of the economic structures of governments, which have passed from authoritarian and regulated regimes to deregulated, democratic and market-driven systems. However, democracy and its significance in the path of economic, political and social reorganization has not provided opportunities to the majority of the population, which has

not seen the benefits from the reorganization of relations between countries in the process of globalization. This is why it is relevant to highlight the constant dispute between a financial system that seeks equilibrium in its macroeconomic variables and the persistent financial instability of capitalist development.

In her analysis, Girón describes the international monetary system from its creation until the post-Bretton Woods era; the global financial markets and the implications of financial globalization for emerging countries; the Washington Consensus and the transformation from regulated economies to deregulated market systems within democratic regimes, to conclude with some reflections on democracy and the results of the structural reforms.

The problem is that after the “lost decade” of the 1980s these reforms were applied without bearing in mind each country’s specific conditions. Thus, they have weakened public institutions and have failed to strengthen national businesses in the face of the foreign competition that invaded the industrial and financial sector of the peripheral countries. Large international corporations have become the main actors in the post-Bretton Woods era through the acquisition of recently privatized companies. As far as the financial environment is concerned, development policies, reforms and the liberalization of financial systems have initiated the internationalization of financial services, contrary to the interests of any project of national development. The result has been growing inequality in income distribution, unemployment and a decrease in consumption, reaching unprecedented peaks in Latin American history.

Arturo Anguiano in his paper on “Mexico: the contradictions and uncertainties of a truncated democratic process” voices his disillusion for the failure of the government of Vicente Fox Quesada, from the National Action Party (PAN), to eradicate during his presidency (2000-2006) the evils caused by seventy two years of hegemony of the PRI (Partido Revolucionario Institucional).

The author explains how, in a very short time, this supposedly innovative government turned into a grotesque caricature of the strongly criticized former PRI’s administrations, by resorting to the same traditional methods and practices of political manipulation and control, and provoking disenchantment, anger and even polarization and despair in all sectors of the Mexican society. Nevertheless, he admits some advances to improved degrees of transparency, like the fact that the institutional elections of 2006 were carried out under the organization and supervision of electoral bodies (the Federal Electoral Institute and its equivalents in each of the Mexican states) more or less

autonomous from the authorities. This could be considered a first step towards the effective emergence of a sovereign citizenry in Mexico, whose rights have always been usurped by the State and its politico-corporate instruments. Nevertheless, this step fell short of what was expected because enjoyment of freedom continues to be segmented, differentiated, unrestricted at the top while restricted, conditioned and even regimented for those who survive at the bottom layers of society.

The democracy that is supposed to have arrived in Mexico under the modernizing auspices of neoliberal globalization is one in which political parties have become electoral machines without a political soul, stripped of their ideology and programmes. Supported by public funding and mechanisms that guarantee them the monopoly over political participation, the parties appear to be booming, rich thanks to the public money, promoted by the modern media, participants in an increasingly exclusive political society. But on the other hand, this society is disintegrating and becoming segmented under the influence of regressive economic policies that result in a massive loss of jobs and condemn ever broader and more diverse strata of the population to impoverishment, emigration and uncertainty.

Similarly to the case of Latin America is the situation experienced in Africa and the Arab World, as analyzed by the Egyptian scholar Helmi Sharawy, when, in "The American led Globalization as the Main Obstacle to the Development of Democracy in the Arab World and Africa", he analyzes the negative consequences of the US hegemonic project for the countries of the region.

Sharawy argues that US shapes its policies in the Arab/African Region in the context of its global plans, the result of which impacts negatively on the democratic developments in the area. On the other hand, scholars and the civil society of the region, despite being aware of this situation, have so far been unable to organize and produce an appropriate local response. This is the reason why, to cope with US overall unilateral strategy, it is of the utmost importance to resort to South-South cooperation.

Sharawy underlines that by the end of the XXth century, the International Financial Institutions have coerced all Third World countries into adopting structural adjustment policies along with supposedly democratic changes. But in order to safeguard the interests of the US and its imperialist allies and in order to secure the flow of oil from the Gulf, full support was given to the dictatorial regimes in the Middle East. Furthermore, a year after September 11, "The national Security Strategy of the United States" was made known to the general public and in this very important document the aims of the American global domination were disguised in moral terms, glorifying the "de-

mocracy” of the Free Market, the American internationalism and the American way of life.

Some people have argued that the logic of the market economy enhances the chances of liberal democracy in the case of liberal capitalist development. But in a region like the Middle East, where such development is absent because of the supremacy of a rent “tributary” economy (oil rent in many countries) and a long history of despotic rule much nearer to the Asiatic mode of production than to capitalism, such market economy leads to despotism rather than to democracy. In the case of the African Continent, the regimes have tried to justify their despotism by appealing to a discourse on ethnic strife, the burden of foreign debt and the injustice of world trade. In both regions however, the aim is to support regimes loyal to the US and block any attempt for a South/South dialogue.

At the beginning of the XXIst century, under the guise of the world war on terrorism, various forms of regional collectives were promoted by US. After President Bush announced his “Strategic Vision of the US” (September 2002), his Secretary of State, Colin Powell, coined his initiative for “Partnership US / Middle East, for Hope Building” in December 2002, through which the US, irrespective of any discourse about democracy and human rights, imposed its arbitrary right to destroy any regime threatening its hegemony. Two years later, the initiative was renamed the “Broader Middle East”. In this context “The Alexandria Declaration” was adopted in September 2004, with a neo liberal agenda of market economy.

According to the author, the progress of this Middle East initiative must be linked to the “American Internationalism”, announced several years before. This “Internationalism” held its preparatory meetings in Warsaw and afterwards created the “World Forum for Democracy” in Chile. For Sharawy, this private international organization, more encompassing in its scope than the Davos Forum, or the G-8, is directed against popular activities and the World Social Forum. As it includes many Third World countries, like India, South Africa and Mexico, which have special preponderance among countries in the South, it presents a real obstacle to any South/South dialogue. For all the reasons presented above he proposes to reactivate the three continent’s movement started in 1955, reinvigorating the South-South community of nations and promoting an alternative democratic globalization to replace the current, American-led globalization that caused so many problems all around the world.

In his “The Looting of Africa” Patrick Bond contends that the continent is getting progressively poorer, and that its integration into the world economy has generated not wealth but has rather improved the

mechanisms through which the outflow of wealth is secured. Africa remains disempowered on fronts ranging from trade to direct investment. Not just poverty, but also inequality are Africa's main features, as it hosts some of the world's worst cases. Yet, the looting of Africa is not new and dates back many centuries, to the point at which value transfers began via appropriation of slave labour and the slave trade. Then, precious metals and raw materials were also extracted by forceful colonialist methods. In recent decades, wealth extraction through imperialist relations has intensified, and some of the same kinds of primitive looting tactics are now once again in place throughout the entire continent.

In his paper Bond analyzes the processes of Africa's underdevelopment via trade and extractive-oriented investment, largely through the depletion of natural resources, thus showing the close correlation between trade openness and liberalization, poverty and the worsening of social conditions in general. The 'Marginalization' of Africa occurred, hence, not because of insufficient integration into the world markets, but because other areas of the world –especially East Asia– moved to the exportation of manufactured goods, while Africa's industrial potential declined thanks to excessive deregulation associated with structural adjustment.

Another related problem is the Northern agricultural subsidy system, though this is merely one aspect of the growing rural world inequality. Farm subsidies today mainly reflect agro-corporate campaign contributions and the importance of rural voting blocs in advanced capitalist countries. The crucial strategic question is whether self-reliant development strategies –which were the necessary (if insufficient) condition for most industrialization in the past– can be applied if low-income exporting countries remain mired in the commodity-export trap. The same points must be raised with respect to Africa's mineral exports, where depletion of nonrenewable resources drains the wealth of future generations. In the most brazen case, the oil sector demonstrates how profit and dividend outflows, often lubricated by corruption, have had extremely negative consequences. In all these respects, diverse forces in society have moved away from considering oil merely as a matter of private property, to be negotiated between corporations and governments, and have begun to treat oil as part of a general 'commons' of a national society's natural capital. Ecological debt that the North owes the South, especially in Africa, is also vast. But only some of these factors are incorporated in the alternative accounting systems of the World Bank and other ecological and social indicators such as those proposed by the San Francisco-based Redefining Progress. A final way in which Africa's wealth is depleted is via skilled labour migration as mounting flows of people are producing a veritable brain drain.

For Bond, the challenge will be to establish a different approach to public policy and politics. The solution to the looting of Africa is to be found in the self-activity of progressive Africans themselves, in their campaigns and declarations, their struggles –sometimes victorious but still mainly frustrated– and their expectations for an Africa which can finally throw off the chains of an exploitative world economy and a global power elite who treat the continent with total disrespect.

In his paper on “The Impact of the Washington Consensus on Democratic Stability: the case of Ethiopia”, Mammo Muchie analyzes the implementation of poverty reduction objectives in African states in this period of structural adjustment programs. For the Ethiopian, the main weakness of the structural adjustment approach sponsored by the Washington-based financial institutions is the rupture of the economy from politics and the disembeddedment of the economy from society. In this process, autonomy and accountability, growth and redistribution, and consensus and inclusiveness, moved in opposite or bifurcated directions.

This dilemma can be well illustrated by taking the issue of governance. Only democratic governance and not what is often sold as ‘good governance’ provides the necessary conditions for tackling poverty at the root. For Muchie, the difference between democratic governance and good governance is significant. The donors invented what they call ‘good governance’ and meant by it anything but democratic participation and empowerment of citizens. By good governance they very often stress authoritarian, pro-market, managerial ability. In the case of Africa, the so-called ‘new generation leaders’ have been selected in accordance to how ‘good’ and receptive they are to the donors, and not on how democratic they are to their people. On the contrary, in democratic governance, legitimacy comes from the people and the society and not from external donors. Democracy is based on people’s choice, empowering the citizen and the society by making the state’s authorities accountable.

In the case of Ethiopia the World Bank officials claim that the present regime is committed to poverty reduction and is meeting the Millenium Development Goals while the country is a food dependent economy and there is not any commitment to democracy from the part of the government. For Muchie, profound democracy is the necessary foundation for the eradication of poverty in Ethiopia, by creating the legitimacy to undertake the much overdue green (agricultural food production), blue (water production) and white (milk production) revolutions. The donors should not disassociate democracy from poverty reduction if they wish to be politically, morally and intellectually sensitive and consistent.

Beluce Bellucci in "All and Nothing: Capital's Wager in Mozambique" analyses the possibilities and limitations of two economic bets proposed to reduce misery in Mozambique, showing the complete schizophrenia between them: capital on one side and labor on the other, with capital being the beneficiary, as always. For the author, the present social and institutional violence is the fruit of the normal process of capital accumulation between the haves and have-nots, with police and private militias imposing order.

The modernization of Mozambique, including the establishment of a national state and the implementation of socialism, occurred belatedly in the world context, in the mid 1970s, just when nation-states began to lose weight in international relations and found their margin for maneuver and sovereignty constrained. With independence, socialist modernization was imposed, conceived of as a system to produce manufactured goods supported by a strong state, formally different from capitalist models. But in 1992, a capitalist, democratic and liberal system was instituted. The legal system was adjusted accordingly, readying the country for its new international insertion, to the liking of big investors. However, never before did the country face such misery with so little autonomy.

Foreign direct investment (FDI) as one of the pillars of economic policy is proposed in the case of Mozambique, through the Mozal Project, which started to operate in 2000, and is considered relevant by the government because, being export oriented, will bring benefits by linking Mozambique to the international economy. Mozal, together with other mega-projects which are still on the drawing board, will have a large impact on the country's GDP and trade balance, but not on the national income, the balance of payments and the creation of local jobs.

Another alternative for a "pro-poor" development strategy to the above-mentioned mega projects has been to attract investments through labor-intensive manufactured exports (LIME) industries, which will create more jobs than the mega projects. But according to Bellucci, this process based on individual and family labor, implies acute and intensified exploitation, and experience teaches that this model is also responsible for the exclusion of various countries and regions. From a novel perspective, the mega-projects act in the old Mozambican picture with "much dead labor and nearly no live labor; while the LIME initiatives act with much live labor and nearly no dead labor".

Mozambique's exclusion is social, political and economic. Mozambique has unconditionally adhered to all the letters of intention to the IMF and has obeyed the impositions established by international lenders. It established the peace process with Renamo,

democratized the country with direct elections, freedom of political parties, the press and circulation of capital, and above all, it brought good governance, permitting high profits and their repatriation. The proposal of the IMF, World Bank and big international investors, endorsed by the government, to attract mega-projects and LIME –in a country with 70% of the population living in abject misery– puts a new face on exploitation, but according with the author, everything is in line with the same colonial political objectives of despoiling the Mozambican people. This is the essence of the current economic policy, which takes advantage of the reigning misery to increase the gains of big capital, borne on the bandwagon of democracy, peace, security and good governance.

In “The Global Crisis of Legitimacy of Liberal Democracy” Walden Bello deals with the present crisis of Lockean democracy, the model of democratic rule that the US has promoted as the system of self-rule, both in the North and in the South. This model is now in crisis in the United States, as well as in the countries of the South, as the author shows through various examples, mainly in the Philippines.

Although two decades ago “People power” used to be synonymous with the Philippines, recent developments have shown that everyone is becoming increasingly disillusioned with the political system established in the Philippines since 1986. This system has increasingly encouraged maximum factional competition within the elite, while allowing them to close ranks against any proposal of change in the social and economic structure. Elections have made voters active participants in legitimizing the social and economic status quo, creating the great Philippine paradox: an extremely lively play of electoral politics unfolding above a class structure that is one of the most immobile in Asia.

Despite some institutional and cultural variations, one can say that the dynamics of democratic politics in countries such as Brazil, Argentina, Mexico, Ecuador, and Thailand are similar to those in the Philippines. In all these cases, dictatorships lost credibility in the 1980s, for they could neither implement nor support the “structural adjustment” programs which external actors demanded. But the new democratic governments soon confronted their own dilemma as multilateral agencies wanted them to use their democratic legitimacy to impose the economic reforms the military failed to carry out. Thus, electoral democracy became the prime mechanism for the imposition of stabilization or structural adjustment programs in Jamaica, Haiti, the Philippines, Peru, and Pakistan, among others. From the mid eighties to the 2002, a series of governments eroded the credibility of democracy by undertaking unsuccessful efforts to impose the economic stabilization desired by Washington and the IMF.

Bello's main point is that democracy is nowadays suffering a process of erosion due to many threats, both in the North and in the South. To respond to these threats he finds it necessary to enter into a process of reconceptualization or fundamental revision of what democracy is at various levels, as for too long democracy has been identified with elections, irrespective of either Rousseau's or Michels' warnings. This is why it is necessary to move to more direct and participatory methods of democratic governance, taking into account the anti-globalization movement with its emphasis on direct democratic methods of decision-making. Equality must be restored, as one of the key dimensions of democracy, achieving a more equitable distribution of assets and income.

But, above all, we must face the fact that capitalism and democratic deepening are no longer compatible, and that the challenge lies in the nature and degree of the restraints that we put on the market while we restructure the system of production and consumption around the satisfaction of the needs of people and the community rather than around the profitability of the firms. This is a very complex task, which needs a multidimensional approach to tackle the various dimensions of the problem with ideas and institutional solutions appropriate for the present times, so that democracy will not become a thing of the past.

In line with the above contribution, Virginia Miralao in "Globalization, Democracy and Development: Some Asian Patterns and the Philippines' Experience", describes the impact of the globalization over democracy and development in Asia, with especial attention to the case of Philippines.

In the first place, Miralao highlights some relevant patterns of globalization, democracy and development in Asia. She briefly analyzes the cases of India, the Philippines, Singapore, Malaysia, South Korea, Taiwan, China and Vietnam to show the difference between the concepts of democracy and development in the countries of the region, and hence, the way they are related to the notions of development and economic growth. In general, country experiences in the region lend support to the proposition that the opening up of national economies to global market forces puts pressure on societies to also liberalize their political systems. But in the case of the ASEAN members, the alliance has not been successful in enjoining fellow-members, like Myanmar, to democratize and allow its citizens greater political freedoms.

Then, she focuses on the Philippines current development situation. Since the mid-1990s, the Philippines has been trying to open up its economy and pursue various "free market" reforms as well as sociopolitical ones, to make the country so-called "globally competitive". She has particularly analyzed the consequences of globalization on

the educational levels and profiles and on the employment structure. And she finds reasons to expect that ongoing globalization may be further worsening the state of the Philippine socioeconomic inequalities. Finally she concludes that despite the fact that there are emerging trends that seem to be uplifting the national economy, this appears to be taking place in ways that do not adequately address issues like poverty and inequalities

In her paper “Theorizing poverty and food security in the era of economic reforms”, Utsa Patnaik analyzes the impact of the neoliberal economic policies on issues related to food security and poverty in India during the last fifteen years, criticizing the prevalent analysis and prescriptions.

The author remarks that the very serious and widespread agrarian crisis that currently affects India was generated by deflationary public policies and trade liberalization, in a moment when the international prices of primary goods were declining. This is reflected in falling foodgrains absorption and falling energy intake in the Indian population. She criticizes, then, the estimation procedure to calculate poverty used by the government and a great number of academics when they arrive at the conclusion that poverty in India is declining, without understanding that the adverse unemployment effects of deflation can swamp out any benefit from falling food prices.

For Patnaik the data shows that the depth of poverty has increased considerably during the fifteen years of neoliberal reforms, with more people being pushed down into a poorer nutritional status than before in most Indian states. Thus, there is not over supply of food grains, but a decline in food grain supply and an even more drastic decline of effective demand for food grains especially in rural India, owing to an abnormally fast loss of purchasing power of the lower strata during the last years.

Her proposal offers an alternative to cutting back food grain output. For her, the correct policy is to raise purchasing power of the popular sectors and restore effective demand and access to affordable food grains through a combination of a universal, and non targeted, employment guarantee scheme.

Patnaik evaluates the relevance of a proper analysis of this situation as the incorrect theorizing in academic and government circles is leading to policy formulations and measures which will only worsen mass welfare and plunge even larger sections of the rural population in particular into higher unemployment and food deprivation. The official calculation uses a particular indirect method of estimation, which completely de-links poverty from nutrition norms by ignoring current data which shows the rising nutritional deprivation and in-

creasing depth of poverty. It refuses to recognize that, while in developed societies consumers can be separated from a minority who are agricultural producers, in a poor country like India the majority of consumers are themselves rural and directly involved in production as cultivators and labourers, so deflationary policies hit them hard in both these roles of producers and consumers. Price deflation does not benefit even landless labourers since it is part of a process of income deflation which raises unemployment faster than prices fall. The economists' estimation of poverty by the indirect method are still caught in the old conceptual trap of equating relative food price decline with declining poverty, without understanding that the adverse unemployment effects of deflation can swamp out any benefit of food price fall.

With current rural poverty as high as nearly four-fifths of the population, and poverty depth increasing with a higher proportion of people being pushed down into lower nutritional levels, Utsa Patnaik concludes by arguing that there is no economic rationale for continuing with a targeted public distribution system.

Romer Cornejo demonstrates that there is not an inevitable relationship between economic liberalism and democracy. In his paper "Political Participation and Challenges of New Democracies: Remarks on China and Taiwan", he exposes how in China the endogenous factors along with the prevalence of the authoritarian state outweigh the internationalization of the economy; in Taiwan, on the other hand, the democratic process can be linked to the search for international legitimacy.

The changes in the Chinese political system during the reforms can be summarized as the transition from a totalitarian regime to a single party authoritarianism. This last form has required the decentralization of decisions and the introduction of innovative ways of political participation, while continually preserving the hegemonic position of the Communist Party, which is endorsed by the Constitution and other related laws. Therefore, the changes in the political system (and the local direct elections as the main example) cannot be considered as mechanisms traditionally linked to a democratic system but rather as instruments to help the survival of an authoritarian regime. The local elections have been utilized by the new leadership to face the threats to governability and the generalized discontent of the population caused by the corruption of local officials.

According to Cornejo, thanks to its political system, Taiwan has been recognised worldwide as one of the most liberal and democratic countries. The transition from a single party dictatorship to an electoral democracy began in the 1980's, together with a Taiwanisation

process of the government. Since 1991 the Constitution has been amended several times with the purpose of changing some foundations of the government structure and the electoral mechanisms. All these reforms have implied a redefinition of the relations with China, as the new ascending Taiwanese elite wanted to move away from the reunification project and begin constructing an all-Taiwanese political structure and a new form of nationalism. The current opening process was not only a product of the island's domestic social forces but, also, of the relationship within the international context and with China. At the moment, the intensification of the economic relationship has made the island highly dependent on its commerce with the continent. Beijing, for its part, has played its cards to influence Taiwan's elections through different means. Another relevant aspect pointed out by Cornejo is the existence of a society with dynamic class mobility resulting from accelerated development, economic opportunities, and effective state policies (efficient land reform, strong investment on education, industrial development and infrastructure construction).

Having analyzed the current political system and the local elections, Cornejo states that nowadays one of the problems in Taiwan is the increasing lack of trust in political parties among voters, because of the growing corruption and the "new pop electoral culture". He concludes that democracy is more than copying procedures and institutions; political culture is particularly important and new democracies still need to go through political education in order to create real citizenships.

MARCO A. GANDÁSEGUI (JR.)*

GLOBAL PROCESSES AND ITS EFFECTS ON LATIN AMERICA

POLYCENTRIC VS PERTURBED WORLDS

The capacity of capitalism to abstractly 'solve the problem of African development' could be discussed ad infinitum. Concrete capitalism, such as actually exists, that is, globalized, not only has failed to 'solve' this problem (which it created) over the last 150 years (or even over the last 400 years since the slave trade), but envisages nothing for the next 50 years. The challenge will therefore only be taken up by the African peoples, the day that the necessary popular alliances enable them to delink (déconnexion) their development from the demands of transnationalization.

Samir Amin (1987)

THE SPANISH-SPEAKING WORLD is celebrating the 400th Anniversary of *Quixote*, published in 1605. The book marks Europe's transformation from the old feudal order to a new financially driven system of accumulation. Cervantes' vision of the new times was ex-

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tremely sharp. Let me share with you a dialogue between Don Quixote and Sancho his squire.

Fortune is arranging matters for us better than we could have shaped our desires ourselves, for look there, friend Sancho Panza, where 30 or more monstrous giants present themselves, all of whom I mean to engage in battle and slay, and with whose spoils we shall begin to make our fortunes; for *this is righteous warfare, and it is God's good service to sweep so evil a breed from the face of the earth.*

–What giants? –Panza responds.

–Those thou seest there –answers his master– with the long arms, and some have them nearly two leagues long.

Look, your worship –says Panza– what we see there are not giants but windmills, and what seem to be their arms are the sails that turned by the wind make the millstone go.

Undeterred, Don Quixote spurs his trusty Rocinante to a shambling gallop, only to come to grief as the windmill turns, breaking his spear and tossing rider and mount to the ground.

Quixote's words sound so familiar 400 years later when world leaders speak of "righteous wars" and the need to "sweep so evil breed from the face of the earth". (China Daily News, 2005).

So-called globalization is not so new. We can track it down to at least since *Quixote's* first edition. However, the late 20th Century corporate world globalization has spurred a set of new questions. According to Wood (2003) the world state system –within which globalization keeps growing– is very much a necessity, with its complex institutional apparatuses and its apparent sovereignty. This is the context in which "New Imperialism" faces all its contradictions and defies conflicting interests. On the other hand, for authors like Hardt and Negri (2001), the Nation-State is obsolete, belonging to the past.

At this juncture we will present the ever expanding capitalist system and its close ties to the existence of the Nation-State. After exploring the notions associated with the Nation-State we will examine their impact on the XXI Century. We are interested in the possibilities for autonomous political organizations to flourish among peoples of over one half of humanity. What obstacles can be foreseen, and what challenges confront the alternatives. Do the alternatives push us in the direction of delinking? Does delinking have a special relationship with revolution? What are the historical delinking experiences? We will analyze some of the more recent thesis developed in the US to confront these alternatives, specifically to contain future delinking processes. We will close with some concluding remarks on Latin America.

THE NATION STATE SYSTEM

According to Wood, (2000) the capitalist world system in the early XXI Century has to confront the growing disparity between the rich and poor regions. To conserve the present world order, a result of over 100 years of on-going conflicts and struggles, more violence and force will top the agenda. Arrighi (2003) believes that we are in a period of transition, a period of turbulence¹. However, Hardt and Negri foresee a new world order based on Empire, a State capable of concentrating military and ideological (hegemony) power over other lesser States and political entities.

In the upper-most echelons of US foreign policy, world order and containment has been its priority for decades. However, as we shall examine, emphasis and direction change according to new world demands. These challenges to the present world order require solutions. For some US analysts world order has to be “perturbed” on a permanent basis. The proposal entails a hierarchic world with a solid center and its periphery. The new world order also must have a “semi-periphery” committed to the global rules.

The proposal underscores the need to “perturb” those countries or regions on the periphery that have any delinking tendencies. Quoting Quixote, “this is righteous warfare, and it is God’s good service to sweep so evil a breed from the face of the earth”.

How and when will this period of “turbulence” come to an end? Will the outcome be a perturbed self-centered Empire ruling over many immature Nation-States? Or will a “new imperialism” emerge with some new and some old “global players” fighting over control of the resources within the boundaries of Nation-States? Or can a polycentric world with multiple regional economic and cultural autonomous expressions at the Nation-State level replace what has been centuries of confrontation?

DELINKING AND REVOLUTION

The appearance of the Nation-State is a product of capitalist development. The Capitalist unequal rhythm of expansion create a Nation-State system full of contradictions. These conflicts have been closely examined on two distinct levels. Firstly, conflicting interests between more and less developed countries (that are identified as Nation-States). These contradictions lead to the subordination of the weaker countries. Wallerstein and Arrighi (1989) set these relations in a world system context divided between center and periphery.

1 “If the system eventually breaks down, it will be primarily because of the US resistance to adjustment and accommodation” (Arrighi, 2003).

At a second level, conflicts arise among the core states whose capitalist expansion tends to clash over control of cheap labor and natural resources. Modern capitalist imperialism is a consequence of uneven growth and expresses itself through financial competition and military confrontation.

Marxists up until early 20th Century saw capitalist relations spreading evenly worldwide. However, Bolsheviks criticized this view saying that imperialism would not allow less developed countries to reach full capitalist development. The only alternative open to these countries was to delink from capitalist relations and start building alternative strategies for development.

The Marxist view of social revolution, a product of internal capitalist contradictions, was enriched and, in fact, transformed by what was called “Leninism”. Revolution was not only the result of reaching a ripe-old capitalist State ready to fall, it could also be understood as breaking away from dominant capitalist relations. The delinking process was a necessity precisely due to the absence of any feasible mature capitalist development.

A long debate ensued within the Marxist ranks pitting the “one country” thesis against a “world revolution” outlook. The valuable lessons deriving from these ideological confrontations can be summarized in a better understanding of capitalist underpinnings. Gramsci’s critique of lineal development, French structuralism, World Systems, and Latin American Dependency theory, among others, broke new grounds in this context.

World Systems theory centers on these processes that open paths for countries to transit from center to periphery, and *vice versa*. It develops the new notion of semi-periphery to acknowledge the existence of an intermediate space. In a way it leans towards criticism of Marx’s original views on capitalist development.

Marx’s theory on a capitalist crisis based on a tendency towards falling profit rates, feeding territorial expansion and regional domination, is overcome through political manipulation and the extraction of surpluses from non value (productive) sources. These alternatives are shrinking in the wake of a diminishing work force and the destruction of the environment. Capitalism has shown resilience through inclusive political regimes (social democrats and /or Welfare States), as well as exclusive policies both at the Center and the Periphery through military takeovers of cheap labor reserves and natural resources.

Among the early writings on imperialism –centered on the dangers of war, financial concentration, and its periodization– little attention was dedicated to the growing polarization of the international community. After the 1917 Russian Revolution and the failure of the

Western European working class to follow suit, Lenin put forth his thesis on building socialism from below. In order to be successful a new strategy was necessary: Delinking. Only through a State centered policy, controlled by a high command, could a relatively backward country catch up with the more developed capitalist countries.

The notion startled and confused many of the revolutionaries around the world. Lenin's idea was to build socialism in the middle of a capitalist crisis, hoping time would be on the worker's side. Lenin's foresight was amazing taking into account his experience during World War I and what was yet to come: The 1929 financial "crash" and World War II. He did not count on capitalism's ability to fight back and find new energies where apparently none existed.

The USSR after its foundation in 1923 chose delinking as the best option to defend its revolution and to accumulate internally. Before passing away Lenin stood by the peasant-workers alliance that would enable the new State to survive. By the period 1928-1929, however, the class alliance was not solving the crucial growth problems faced by the USSR. Rapid industrialization could only be achieved by transferring profits from the rich peasantry to the new economic strategy. The economy based on "socialist primitive accumulation" became the new battle cry².

HISTORICAL DELINKING EXPERIENCES

Russia's delinking strategy was mainly imposed on her by the central powers and ensuing imperialist policies (internal contradictions). To survive the blockade and military campaigns, the USSR first established an alliance with the small and medium landowners in order to create surplus. Later on it subjected the land-workers to stringent accumulation policies. Throughout its 70 year history, the USSR was forced to compete on uneven grounds with the richer capitalist countries. The arms race finally pulled the rug from under the Soviet regime. The USSR was never able to escape the laws of capitalist accumulation.

The autarchic thesis of socialism in one country was transformed after World War II into an alternative model of growth for all underdeveloped countries. The earlier delinking strategy was abandoned and in its place a new socialist world bloc was proposed to compete with capitalism.

2 According to Bettelheim, Charles (1978) a new economics based on the idea of a "socialist primitive accumulation", put forth by Preobrazhensky, Evgeni (1971) would call for "the peasantry (to) pay relatively high prices for industrial products and be more or less underpaid for their own produce".

The Chinese Revolution right after World War II seemed to confirm the delinking thesis. China's new leaders rapidly embraced Moscow. However, disputes over peasant worker alliances and agrarian surpluses provoked a split by the end of the 50s. In Latin America, the Cuban Revolution success reinforced the delinking thesis. In order to survive the overwhelming US offensive the Cuban leadership struck an alliance with Moscow. Cuba was able to receive enough petrol and cheap food products (for 30 years) to consolidate its new society.

Using the same containment tactics applied to the USSR and China, the US set up an aggressive isolationist policy towards the Caribbean island. The US developed a dual strategy aimed at destroying all national liberation movements as well as to contain all delinking processes. Firstly, containment was predicated on an anti-communist crusade. Secondly, an inclusive policy was hatched based on development and economic growth recipes. Today's classic example is still W.W. Rostow's book on how to confront communism through capitalist development (Rostow, 1974).

The Dependency theorists in the 60s put forth an alternative that rebukes Rostow's thesis. Its focus centers on capitalist contradictions and limitations. Two lines within the Theory of Dependency are recognized and debated. The first states that countries on the periphery will never be successful if the central powers do not make structural changes. These changes would clear the way for the less developed countries to catch up (Cardoso and Faletto, 1969).

Prebisch understood the relations as uneasy, begging for more autonomy.

By dependence I mean relations between centers and the periphery whereby a country is subjected to decisions taken in the centers, not only in economic matters, but also in matters of politics and strategy for domestic and foreign policies. The consequence is that due to exterior pressure the country cannot decide autonomously what it should do or cease doing. The structural changes bring about an awareness of this phenomena, and this awareness, this desire for autonomy, is one of the integral elements in a critical understanding of the system³ (Chilcote, 1984).

Chilcote also quotes Osvaldo Sunkel, a renowned critique of development theory, who says that Latin America's

aim is greater autonomy, in order to achieve development without "dependency" and without marginalization. To achieve this goal, the asym-

3 Chilcote's quote is from Prebisch, Raul (1980).

metrical nature of the present system of international economic relations must first undergo a thorough reform (Sunkel, 1972:517-531).

The second line did not see any possibilities for structural changes and proposed a delinking strategy designed to build new alliances and create conditions for self-centered surplus accumulation⁴ (Marini, 1973; Dos Santos, 1977).

We attempt to demonstrate that the dependence of Latin American countries on other countries cannot be overcome without a qualitative change in their internal structures and external relations (Dos Santos, 1970).

In a political perspective, Dos Santos would add that

everything now indicates that what can be expected is a long process of sharp political and military confrontations and a profound social radicalization that will lead these countries to a dilemma: government of force, which opens the way to fascism, or popular revolutionary governments, which open the way to socialism. Intermediate solutions have proved to be, in such a contradictory reality, empty and utopian (Dos Santos, 1970).

There is no doubt that the most successful delinking experiment of the XXth Century was the creation of the Socialist Bloc under Soviet leadership. Although the process was wracked with contradictions, Moscow rarely denied entrance to any Nation-State. Another experience set in motion in a similar direction –with different ideological contents and with less success– was the non-aligned movement.

According to Samir Amin (2000) these experiments were mainly grounded on material objectives, losing perspective of the ideological underpinnings. Material aspects were over dimensioned and super structural elements were not sufficiently stressed.

The strategic objectives of these revolutions involve a disconnection in relation to the logic of the capitalist global expansion. The deployment of these objectives supposes a power based on a social hegemony “national popular” and not a “dictatorship of the proletariat”, as it had been conceived in the Marxist tradition, which recognizes the need to combine, even conflictively, aspirations of capitalists and other socialists character. Progress in achieving these objectives implies, in turn, the gradual and steady progress in the democratization of society both in the practice of management power and in the economy.

4 For an update on the Dependency debate, Osorio, J. (2005).

An important case that must be studied further is China's post 1949 revolutionary experience. Delinking was an immediate response to US military threats. China's alliance with the USSR enabled Mao followers to defend themselves militarily and to reorganize the economy. By 1972 China was able to establish new relations with the US and other central powers. By the turn of the XXI Century China is considered a rising star capable of becoming the future economic world super power on which capital accumulation can grow unfettered.

China's re-linking has just begun. With strong similarities to the US experience in early XIX Century or German development in the mid 19th Century, China seems ready to smash all material and ideological obstacles on its way towards becoming a central player in capitalist accumulation. China seems to be prepared to take the giant step thanks to its work force as well as to its political organization. (Ecologists have their doubts that the Earth can support a new world player –capitalist predator– next to Europe and the US)⁵.

THE PERIPHERY'S DELINKING

Delinking implies a political option taken by a leading social class or class alliance to unshackle the economic and ideological bonds imposed by the core capitalist powers and to seek new avenues towards the creation of self-centered national projects. Are these projects associated with any particular economic system or ideological premise? In other words, is delinking a step towards joining ranks with capitalism or is it supposed to show the road towards socialism?

The present day states successful in their delinking processes are at the center of the capitalist accumulation process. Those who failed are somewhere between the periphery and the semi-periphery. Where will China place itself in the short or medium term? Can Cuba be analyzed in this context?

Capitalism's "periphery" is split into two segments. There is the proper periphery and there is also a semi-periphery. These are difficult categories because they are diffused, expected to describe the movements of Nation-States. The members of the semi-periphery tend to move towards the center, with some self-centered accumulation el-

5 Others are much more optimistic for very different reasons. In a recent newspaper article published in Beijing an observer had this to say: "*Perhaps the strongest reason for optimism (over the region) is that it is no longer true that rising powers must inevitably confront existing powers in either an acrimonious rivalry or in overtly belligerent competition*", said Michael Rich, executive vice-president of Rand Corp, a US-based think tank."

ements. The proper periphery has no accumulation properties with exporting or enclave economies.

The Nation-State system offers a stabilizing effect both on political relations as well as to the accumulation process. The territorial and world market distribution that took place in the XIX Century and the containment policies of the XX Century gave capitalism the needed stability for accumulation. The European Wars during the XIX Century and the XX Century World Wars were necessary in order to make the adjustments between old and new power centers.

The XXI Century will face new and more dangerous confrontations between incumbent central powers and new candidates. Unlike past centuries, the contenders are not concentrated in Europe. Europe along with Russia can become contenders in the next battle confronting US and the Far East (China and Japan). An armed conflict or an ideological struggle of this kind can create conditions for delinking processes at regional levels or on a country basis. Samir Amin asks himself if delinking is viable or adequate at a regional level. Can delinking be the result of one or more leading countries at the periphery? Amin also proposes the possibility of an intermediate road that would lead to a new stage of world capitalist expansion based on the accelerated accumulation of an integrated periphery. (Samir Amin, 1997).

Theotonio Dos Santos (2005) just recently put Brazil's foreign policy in the spot-light presenting the South American country as a new "global player".

Brazil's new international role implies a world trade strategy with new partners. At present Brazil has balanced its foreign trade flow equally among the US, Japan and the rest of Latin America. Brazil's growing trade with China and Asia, as well as its strategic move towards the Arab countries, and its future association with Russia is part of the over-all picture it is sending to the world as a new "Global Player".

Theotonio Dos Santos' approach has very little to do with autarchic strategies. In this sense he shares Samir Amin's (2000) view on the question that relates to delinking and autarchy.

We shall not expand here on the theory of delinking but, to avoid any misunderstanding, say merely that delinking is not synonymous with autarchy but only the subjection of external relations to the logic of internal development (whereas adjustment means binding internal development to the possibilities afforded by the world sys-

tem). In more precise terms, delinking is the refusal to submit to the demands of the worldwide law of value, or the supposed ‘rationality’ of the system of world prices that embody the demands of reproduction of worldwide capital. It, therefore, presupposes society’s capacity to define for itself an alternative range of criteria of rationality of internal economic options, in short a “law of value of national application”.

THE US AND DELINKING

In recent years new world-views have made their way to the top of the best seller lists in the US. Although not truly original, what makes them special is their focus on the future of capitalism, uneven development, and delinking processes. Author Samuel Huntington discovers Gramsci’s notion of hegemony to base his theories on the inevitable clash of civilizations and the survival of capitalism. More recently, Thomas Barnett (2004) Professor at the Naval War College (Rhode Island), has sparked controversy by stressing the need to introduce discipline on a world scale in order to subdue conflicts in an expanding capitalist system⁶.

The nature of the system’s contradiction require correctives that can deal with threats of dismemberments, to avoid disconnections between its parts that can put the whole in danger. According to Barnett, globalization is not a lineal process and much less an opportunity for less developed countries to catch-up with the richer nations⁷. Barnett agrees with other authors reviewed here that the capitalist system has a center and a periphery⁸. In his particular view, the US stands alone as the center’s nucleus. The rest of the developed world is grouped together in a “semi-periphery” status. The periphery is made up of all other Nation-States characterized by their instability, ruled by political dictators and often with enormous natural resources. Under normal conditions, the system has no major problems it cannot solve. However, the center-periphery relationship generates what Barnett calls “collateral damages”. These are mainly maverick Nation-States that delink from the capitalist system.

6 For a further analysis of Barnett’s proposals see Ana Esther Ceceña, (2004).

7 See Garcia Arias, (2004) an analyst at ECLA, for a deeper analysis of neo-liberal policies.

8 Barnett rejects Wallerstein’s formulation of the concept. In an interview with Martinovich (2004) the political scientist says “As for Wallerstein’s brand of watered-down Marxism, let’s remember that he posited that the Core needed to keep the Periphery down in order to stay rich. I’m making exactly the opposite argument. If anyone wants to link me to Wallerstein, they better note I turn that now outdated (it worked for a while in the 1970s) argument on its head.”

According to Peet (2005)

Barnett describes a binary opposition: on one side there is a functioning core, a wonderful world, where the good stuff is found and the good life lived, with sacred America acting as the beacon of liberty; while on the other side there is the “disconnected gap”, where the bad stuff usually happens, off-grid locations where security problems and instability congregate, dangerous places that constitute a demand pattern for U.S. security exports. This cartography of American enlightenment guides a new attitude toward the world, intensifying the existing sense of global supremacy by expressing it always in optimistic terms, in contrast to terms of eternal lack in the places waiting for freedom to be imposed.

With the collapse of the Socialist Bloc and with China’s relinking, the US has identified a new enemy for the XXI Century. Barnett discards the cultural threats to world order (religions, Islam, and others) and identifies as dangerous all those countries that have delinked as well as those with possibilities of doing so. Peet singles out another glimpse of Barnett’s theory:

The enemy is neither religion (Islam), nor place, but the condition of disconnectedness. To be disconnected in this world is to be isolated, deprived, repressed, and uneducated. For Barnett, these symptoms of disconnectedness define danger. Simply put, if a country was losing out to globalization, or rejecting much of its cultural content flows, chances are that the United States would end up sending troops there. So Barnett thinks that the 1990s revealed neither chaos nor uncertainty, but the defining conflict of our age, a historical struggle that screams out for a new U.S. vision of a future world worth creating. Strategic vision in the United States needs to focus on “growing the number of states that recognize a stable set of rules regarding war and peace” –that is, the conditions under which it is reasonable to wage war against identifiable enemies of “our collective order”.

Barnett divides the system’s center into two parts. Firstly, a country or a region is functional to capitalism if it can manage the flows that integrate national and world economies (ideas, services, money, and media). At a second level, the system is made up of a group of countries or regions that do their best to harmonize their internal laws with dominant global rules of democracy, rule of law and the free market. Countries that are well behaved are those whose requests to join the WTO are accepted. Peet comes to the conclusion that according to Barnett “a country is ‘disconnected’ (delinked) when it fails to gain the confidence of multinational corporations, which limits foreign investment”. Barnett adds that this may be the case,

because the country is a theocracy, is spatially isolated, connected to the world via corrupt state-run telecommunications media, pursues illicit gain, treats its women as birth machines and therefore limits its labor force and export potential, or because it is “blessed” with too many raw materials that constitute its main exports.

Barnett also says “connectedness is kept from appearing in the ‘gap’ (peripheral countries) by wars, leaders who stay too long, and so on”.

Barnett’s book puts forth two interesting proposals to maintain *an Pax Americana* in the XXI Century and neutralize contending alternatives (delinking). To start off with, Barnett suggests that the US should create a Systems Administration Force. This would entail dividing the Pentagon (Defense Department) into two divisions. One division would take care of traditional armed forces and their deployment on a world scale. The other division would take charge of the new Systems Administrative Force with the task of reshaping and guiding all delinked countries⁹. Chet Richards (2005) comments that Barnett’s goal to “perturb” countries that are delinked would be impossible if such a scheme were not in place.

Without such a force, we might –through massive military effort– perturb a Gap country’s system, but we will have no mechanism to steer it into the Core. We are seeing this in Iraq today where the initial surgery on the country was successful, but both the patient and the surgeon may succumb to the post-operative infection.

Barnett’s idea of “perturbing” countries that are delinked (or in the “gap”) is not quite the same as destroying nations or peoples. It is more a question of creating instability and redefining the existing set of rules between Nation-States. Barnett believes that in order to reach full-fledged globalization a third of today’s world population (2 billion persons) would have to be perturbed. In order to reach such a goal the proposed Systems Administrative Force would have to recruit some 20 million persons to work on a global scale on an indefinite basis.

It is worthwhile noting that Barnett predicts the political annexation of the whole Caribbean Basin to the US in the next 50 years. This

9 The US created an Office of Reconstruction and Stabilization at the State Department, with many of Barnett’s proposals, in August 2004. President George Bush gave a major speech explaining the Office’s mission last May. See George W. Bush, 2005, Supporting Emerging Democracies, Remarks at the International Republican Institute Dinner, Renaissance Hotel, Washington, DC, 17 May, US State Department Web Page.

includes Mexico, Central America, and the northern portion of South America (a population close to 225 million inhabitants). He also foresees a Mexican-born President at the White House by the middle of the XXI Century.

A POLYCENTRIC WORLD VS A PERTURBED WORLD

Barnett's world-view does not deviate much from past capitalist experiences. According to the Professor at the US Naval War College, in order to avoid delinking from the system on behalf of Nation-States or whole regions, a strategy must be set up to defeat any new alternatives. Barnett is very explicit in detailing the consequences these movements could have for the present world order.

Samir Amin's theoretical proposals are precisely what worry US strategists the most. According to Amin, the only alternative open to countries at the periphery is to delink from a system that presents no future to them. If new alternatives appear on the horizon several centers could compete with their own dynamic, creating a polycentric world.

Barnett's proposal contemplates precisely such a scenario. A polycentric world, apparently, would not be tolerated in Barnett's scheme. In order to dampen delinking tendencies, Barnett foresees two forms of perturbations. Those created by central forces in order to destabilize delinked Nation-States or countries that have plans to disconnect from the system. Barnett also mentions the possibility that the center itself can be perturbed by events such as the New York City Twin Towers attacks (Arrighi, 2005)¹⁰.

A weakness in Barnett's proposal lies in his center-periphery notion placing the former and the semi-periphery in an ironclad alliance. In other words, the center's nucleus and the semi-periphery would be capable of absorbing any autonomous challenge coming from alternative projects. Barnett shares Hardt and Negri's view of a future dominated by a central State capable of maintaining the rule of law on a global scale.

Wood however does not agree with this view of Empire. She considers the arrangements evolving around the "New Imperialism", as a system of Nation-States linked by a global economy but managed by local States, vulnerable to popular and democratic struggles. In a situation of this kind, there is more and more room for opposition movements to expand and exploit the contradictions created by the core's growing demands and its local political allies.

¹⁰ Arrighi in his article remarks that "scaring hell out of the American people' was highly successful in helping establish US hegemony in the wake of the Second World War; but is now, in all likelihood, helping to bring that hegemony to an end."

Jameson (2000) asks if whole regions or continents can delink from the logic of capitalist accumulation. Apparently, Jameson says, globalization seems irreversible albeit the fact that only a few decades ago a large segment of the world's population belonging to the Socialist Bloc was delinked. Jameson believes that the collapse of the USSR was not due to the failure of socialism but to the fact that the Socialist Bloc abandoned its project of disconnection¹¹.

Samir Amin's polycentric world with its multicultural shapes and forms ("national popular social hegemony") can emerge from capitalism's contradictions and face-off with Barnett's permanent perturbed world foreseen by those defenders of a renewed Empire, based on a free market rational. The contradictions that characterize the appearance of new economic and cultural powers, with world hegemonic ideas (imperialism), will also provoke new grass-root movements as well as Nation-State delinking processes. These movements will search for original channels of cooperation capable of setting up new grounds for the building of viable alternatives.

LATIN AMERICA

For 200 years Latin America has been formulating projects that have universal underpinnings. The revolutionary wars fought for independence between 1808 and 1824 put forth a new Nation-State ideology expressed in the writings of Bolivar and others. At the end of that century, Jose Marti put forth a new set of ideas addressing social issues. In the mid XX Century the "Latino-americanists" strived with no avail towards industrial development trying to gear the continent's future towards economic growth through import-substitution polices.

The new national markets created by industrialization gave rise, however, to a belligerent working class as well as to new aspirations on behalf of a local class of entrepreneurs. This "populist" alliance gave hope to a national project based on productivity and equality.

Cuba's 1959 populist revolution was forced by a failed US-led military invasion and a blockade (now in its 44th year) to jump over this

11 Jameson's quote is the following: "Might regions, even whole continents, exclude the forces of globalization, secede, or 'delink' from it?... The aura of doom that seems to hang over globalization's putative irreversibility confronts us with our own inability to imagine any alter-native, or to conceive how 'delinking' from the world economy could possibly be a feasible political and economic project in the first place –and this despite the fact that quite seriously 'delinked' forms of national existence flourished only a few decades ago, most notably in the form of the Socialist bloc. I have taken the unpopular position that the 'collapse' of the Soviet Union was due, not to the failure of socialism, but to the abandonment of delinking by the Socialist bloc."

“phase” of creating the “national market” going straight to a radicalized political process. In the Southern Cone countries of Latin America, populism also led to an inevitable show-down with the US. On the one hand, with regard to Cuba a weaker middle-class existed and, on the other, a very powerful military was organized under US guidance to contain changes and unleash one of the bloodiest political reactions in history. The 1964-1989 military dictatorship’s era first objective was to smash the “populist” alliance and follow up with the destruction of the working class.

The first objective was swiftly accomplished due mainly to the lack of a political commitment on behalf of the middle classes that were not able to coalesce behind the “national project”. The second goal was more difficult due to the essence of capitalist development based on the accumulation of surplus labor. A new strategy was needed to control the worker’s protests and especially their class organizations.

Neo-liberalism was unfolded to enhance capitalist accumulation but more specifically to control workers and their organizations. Deregulation, flexibilization and privatization were the three miracle words in the neo-liberal vocabulary. Globalization entailed a new ideological strategy to weaken the workers and block any class alliances. After the neo-fascist onslaught came to an end, the neo-liberal objective was altered in the 80s: The goal was no longer to submit the working class and destroy its organizations. The new tactic was even more radical: wipe the working class out and make it disappear through globalization. Shrink it in size and make it competitive as well. Presidents like Collor (Brazil), Menem (Argentina), and dictator Pinochet (Chile) were given the task. All three failed miserably and left their countries in shambles.

Since the 90’s a new tactic has been developed. Globalization still means shrinking the size of the working class and making it competitive (squeezing any class solidarity out of it) but a new very important component has been added: Bring the working class into the political equation inviting its political parties to lead the way into globalization. These are apparently the new roles of former working class revolutionary parties such as Brazil’s *PT*, Chile’s *PS*, Argentina’s *Justicialistas*, Uruguay’s *Frente Amplio*. Mexico will probably follow shortly (2006) with *PRD*. Where there are no alternative working class political parties available, a Chavez (Venezuela) will appear and an Evo Morales (Bolivia) will surely be present.

There is an optimistic reading of current events in Latin America. What seems to be a triumph of globalization over local or regional alternatives can give shape, paradoxically, to a new –polycentric– scenario in

the near future. As seen before, Brazil has its own strategy and has been able to block US plans to “perturb” its political ambitions. Argentina has all the promise (a “first world” country in the late 19th Century) and will probably have to back Brazil as the “world player” in the region.

Mexico will probably support with enthusiasm the new regional project once the PRD government takes over in 2006. Chile has always been a wild card but will probably follow Brazil’s leadership in the short run¹².

Can the US continue controlling events in Latin America as it has done since annexing half of Mexico in 1846? The pessimistic scenario is put forth by US Naval War College Professor Thomas Barnett. (2003) The US is planning on setting new political boundaries with its southern neighbors. The new boundary set by Barnett’s perturbed world by 2050 would be the great Amazon basin in the heart of South America.

No more speculations. Latin America is on the road to new unforeseeable political and social arrangements in the near future. At present they cannot be predicted. However, the world system’s center and/or imperialism’s conflicting interests still foresee a subjugated Latin America. It is up to the Latin Americans to build their own alternatives. To paraphrase Samir Amin (1987):

The challenge will therefore only be taken up by the Latin American peoples, the day that the necessary popular alliances enable them to delink their development from the demands of transnationalization.

Can we conclude asking ourselves, along with all human-kind with whom we share this planet, who are –today– those monsters the Quixote identified 400 years ago as his enemies that must be wiped from the face of the earth?

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12 Secretary Rice was vehement in reminding the Latin American countries the US position in a recent OAS meeting. “We must insist that leaders who are elected democratically have a responsibility to govern democratically. We must act on our Charter to strengthen democracy where it is weak. We must act on our Charter to support democracy where it is threatened. We must act on our Charter to secure democracy with the rule of law.”

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**INTERNATIONAL MONETARY FUND:
FROM STABILITY TO INSTABILITY
THE WASHINGTON CONSENSUS AND
STRUCTURAL REFORMS IN LATIN AMERICA**

INTRODUCTION

The International Monetary Fund (IMF) was created to set a standard for development and to facilitate the exchange transactions of the International Financial System (IFS) in the framework of the established international economic order. During the last three decades, the IMF has transformed itself into an international financial organization whose main objective has been to act as a “lender of last resort” in the face of the instability generated by financial crises during this period. The Washington Consensus and the Structural Reforms in Latin America have jointly contributed to increase the instability in the region in a democratic context. It is therefore important to establish the reasons for the creation of a post war international monetary system and for the ongoing changes in the relationship between international financial institutions and the economic and political international order.

In addition, financial globalization and financial markets have fulfilled a strategic role in the performance of emerging economies, resulting from changes in the global financial system. Also, the develop-

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ment of capitalism and the economic reforms of the Washington Consensus have deepened the transformation of the economic structures of governments, which have passed from authoritarian and regulated regimes to deregulated, democratic and market-driven systems. However, democracy and its significance on the path of economic, political and social reorganization, has not given opportunities to the majority of the population, which has not seen the benefits from the reorganization of relations between countries in the process of globalization.

Decades ago, in *Capitalism, Socialism and Democracy* (1946), Schumpeter emphasized several problems of democracy, saying that

We have every reason to be on our guard against the pitfalls that lie on the path of those defenders of democracy who while accepting, under pressure of accumulating evidence, more and more of the facts of the democratic process, yet try to anoint the results that process turns out with oil taken from eighteenth-century jars (Schumpeter, 1946: 324).

That is, “we still remain under the practical necessity of attributing to the will of individual independence and a rational quality that are altogether unrealistic” (Schumpeter, 1946: 325). The significance of this quotation is that Schumpeter recognizes that defenders of democracy and of freedom of choice do not necessarily seek the benefits of economic welfare and the opportunities that society can offer all of its members. Very often democracy centralizes political and economic power in the hands of a small group.

Indeed, when one studies democracy inside the voting system of the IMF or voter equality in democratic regimes of the countries of the South, it would be difficult to speak of the benefits of democracy. Thus, Amartya Sen furthers the concept of democracy, relating it not only to the possibility of election by the majority, but also to the opportunities of satisfying human beings’ needs and desires. Democracy is much more complex, as it not only relates to the majority vote but also to the respect for freedom and the right to choose within the social environment. Democracy is a system of demands on the part of social actors. Thus, democracy is related to economic development and to the economic needs of the population. These needs are also related to citizens’ values and universal values, such as the right to work, to nourishment, health, housing and education.

Democracy and economic development constitute the path towards liberty; this relationship is understood as

a process of expanding real freedoms [...] that [...] focuses attention on results for which development becomes important, and not only on the means that, amongst other things, have an outstanding role in the process (Schumpeter, 2000: 19).

This author mentions five different types of freedom,

[...] from an instrumental perspective: 1) political freedoms, 2) economic facilities, 3) social opportunities, 4) transparency guarantees and 5) protective security. Each of these, distinct types of rights and opportunities, help to advance the general capability of a person (Schumpeter, 2000: 27).

Following these considerations, the main idea of this paper is to highlight the constant dispute between a financial system that seeks equilibrium in its macroeconomic variables and the persistent financial instability of capitalist development. The essay is divided into the following sections: I) the international monetary system from its creation until the post-Bretton Woods era; II) the global financial markets and the implications of financial globalization for emerging countries; III) the Washington Consensus and the transformation from regulated economies to deregulated market systems within democratic regimes; and lastly, IV) reflections on democracy and the results of the structural reforms.

THE INTERNATIONAL FINANCIAL SYSTEM IN THE POST-BRETTON WOODS ERA AND THE REFORM OF THE IMF

In general, the International Financial System is identified at present with the International Monetary Fund and to a lesser extent with the World Bank (WB), international institutions that for more than six decades have carried out financial norms established towards the end of the Second World War. This section is divided into three parts: a) the international financial system and its relationship with the IMF; b) the characteristics of the post-Bretton Woods era, and c) the reform of the IMF.

INTERNATIONAL FINANCIAL SYSTEM AND ITS RELATIONSHIP WITH THE IMF

The foundations of the IFS were established in July, 1944, to allow the economic renewal of the world's main economic actors. The objectives were

[...] the creation and control of international liquidity and the maintenance of a stable but adjustable exchange rate system, which helps countries with transitory difficulties in their balance of payments to hold stability in the exchange rate, as a contributing factor to the development of the international economy (Chapoy, 2001: 22).

As such, a system with fixed exchange rates arose, with gold as the common denominator of monetary parities, expressed at the same time in US dollars. The possession of foreign exchanges in the finan-

cial reserves of countries was fully allowed. Therefore, the rate of exchange, disequilibrium in the balance of payments, and the reserves (once in gold, now in dollars) have constituted the key considerations of a hegemonic monetary system.

With regard to exchange rates regimes, the IMF's Constitutive Agreement establishes in Article IV (Section I), corresponding to general obligations of members, that

[...] the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates.

More precisely, the IMF was created to facilitate the exchange order altered by the Second World War. According to authors such as Chapoy (1983), Correa, Girón and Martínez (1999), this has propitiated the expansion of corporations in Europe, as well as in Asia and Latin America.

This is due in large part to the fact that international financial organizations established the order and the management conditions of the exchange rates to facilitate the penetration and expansion of direct and indirect investments. As such, until 1971 corporate capital had a course of development beginning with its banks and companies. It is exactly in this year that the foundations of the Agreements began to crack and what would later be called the post-Bretton Woods era began.

These agreements broke down in several ways. In 1944, “[...] when the IMF was established in Bretton Woods, a fixed exchange rate system emerged around the dollar, convertible into gold at a certain standard rate” (Chapoy, 1983:7). Between 1971 and 1973, dollar devaluation took place, followed by an increase in the price of gold and the flotation of exchange rates. This situation caused not only currency instability, but it also displayed the need to deregulate financial systems. As for financial stability, Article IV of the IMF's Constitutive Agreement points out that each member shall

[...] i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability; [...] ii)[...] that does not tend to produce erratic disruptions; iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or

to gain an unfair competitive advantage over other members; and iv) follow exchange policies compatible with the undertakings under this Section (IMF, 2006).

In Section 3 on Surveillance of exchange arrangements, the Fund establishes the supervision of the international monetary system and the compliance of each member to its obligations.

Due to the priority given to monetary stability through exchange rates and the balance of payments, the IMF has operated through stabilization programs. But as the IMF does not take into account that economies have periods of growth and contraction, it has imposed economic stabilization measures with orthodox leanings, and consequently pro cyclical monetary, fiscal and financial policies have been applied.

THE POST-BRETTON WOODS ERA

The results of changes in Article IV and the devaluation of the dollar in relation to gold in 1971 and 1973, have signified not only the breaking of agreements but also the beginning of the post-Bretton Woods era, characterized by 1) an international monetary system detached from a stock of external assets; 2) the creation of financial resources in excess of the rate of growth of international trade; 3) displacement of capital flows towards emerging markets; 4) chronic financial crises; 5) drastic changes in national financial systems and 6) accumulation of reserves in emerging economies (Mántey, 1988).

IMF REFORM

Recently, at the Aspen Institute in Rome, Italy, Rodrigo de Rato, managing director of the IMF, said that

[...] The world is changing and the IMF needs to change with it. Twenty-first-century globalization, with massive movements of capital and abrupt shifts in comparative advantage, is presenting all countries and the global community with new challenges. The Fund must help our members meet these challenges, and it will need to adapt to do so (IMF, 2006: 100).

On this subject, Edwin M. Truman mentions in *A Strategy for IMF Reform* (2006^a) several issues worthy of discussion, such as the voting and veto power of the members of the IMF. Countries that constitute the Group of 5 gather almost 40 percent of total votes: the United States has a share of 17.08%; Japan 6.13%; Germany 5.99%; both France and the United Kingdom 4.95%. European countries, including those recently incorporated into the European Union and those from Eastern Europe, constitute about 33.72% of votes. China rep-

resents 2.94%, Russia and Saudi Arabia 2.74 and 3.22, respectively. Africa has a 4.41% share, Latin America 12.43% and Asia 7.93%. This synthesis of voting percentages is of great importance, as developed countries, in no need of financing, have the larger number of votes. As it stands, at least a 10% of the voting power must be transferred from industrial countries to emerging economies.

A recent publication of the Institute for International Economics mentions that the IMF faces an identity crisis. It should guarantee its member countries the health and stability of the global economy and the financial system. Countless proposals are aimed at reforming the institution, not only its provisional committee but also the availability of larger amounts of resources to finance development (Truman, 2006:119).

Article IV emphasizes the stability of exchange rates, seeks coherence between countries' external and internal balances, and underlines that the Fund shall offer policies containing real guidelines for a country to develop its economy. This has determined the maintenance of a primary fiscal surplus in many countries, with the cases of Argentina, Brazil, and Mexico being of particular relevance. In Mexico, the lack of an employment policy as part of the main objectives of economic policy has contributed to the expulsion of jobs towards the United States. As such, remittances to the country have increased remarkably.

FINANCIAL GLOBALIZATION AND THE FINANCIAL MARKETS OF EMERGING COUNTRIES

The IMF, in abdicating its role at the center of the IFS and regulator of inter-bank loans, left the field open for financial intermediaries to direct the international financial market. In this new dynamic, the IMF is merely an observer of markets, an international lender of last resort, and an adviser of governments in order to restrict monetary, fiscal and financial policy in accordance with the new international order.

With the fall of the Bretton Woods agreements, financial instability has deepened and sharpened. In the past decades, financial crises have become part of Latin American, Asian and African daily life. The IMF itself points out that "[...] between 1975 and 1997, 158 episodes in which countries experienced substantial exchange market pressures and 54 banking crisis were identified" (IMF, 1998:86). A number of broad types of crises can be distinguished: currency crisis (devaluation or sharp depreciation), stock market crisis, banking crisis, balance of payments crisis, etc. Hence, it is correct to say that the decade of the nineties has not been the "decade of hope" or the "lost decade", but the "decade of the financial crisis" on a global scale.

Although stability has characterized the first decade of the XXI century, it has not been accompanied by economic growth. The world has gone through a decade of financial deepening that can be illustrated with the following figures from the Bank for International Settlements. Interbank transactions reached \$23.1 trillion as of the second quarter of 2005. This unusual growth had not been seen since the first quarter of 1988. The main activities were carried out basically by banks in the United States, the United Kingdom and Offshore Centers (Bank for International Settlements, 2005:15). According to Mántey,

[...] global financial deregulation and the detachment of the international monetary system from a reserve of external assets, has resulted in the expansion of international financial markets at rates far superior to those of world revenues and international trade (Mántey, 1998:9).

For example, the World Trade Organization (WTO) indicates that exports exceeded \$10 trillion in 2004. In spite of the fact that there was a slowing of world trade in 2005, exports of commercial services still rose by 11% at current prices (as opposed to a growth of 29% in 2004).

Meanwhile, financial activities have maintained a sustained growth, as evidenced by capital flows. Total external credits equaled \$7.7 trillion dollars in 2005. Capital flows towards developing countries have had a sustained annual average of \$179 billion dollars between 2002 and the present. Nevertheless, Asia has received greater amounts of these private capitals than other regions, attracting \$60.9 billion dollars during the period, while the Middle East and East Europe have received \$77.4 billion dollars. On the other hand, Latin America's annual average of capital inflows has decreased by \$54.8 billion dollars from 1996 to 2001. From 2002 until today, inflows to the region have averaged \$17.9 billion dollars annually.

At the same time, the deepening of external indebtedness is noteworthy in the region, and Latin America continues to be far more indebted than other regions of the developing world. Since 2000, the region's annual average of external indebtedness has been \$760 billion dollars, as opposed to South-East Asia and the Pacific's \$512 billion dollars, and Eastern Europe and Central Asia's almost \$600 billion dollars. Expressed in other terms, Latin America represents almost a third of all developing countries' external indebtedness and more than the third of developing countries' external debt service, representing as an annual average almost \$133 billion dollars since 2000.

The players of financial globalization represent interests of considerable scope. Only the first ten commercial banks worldwide controlled 12.6 trillion dollars in 2005 (The Banker, 2005), when fifteen years before, the respective number was only around 3 million dollars.

The major non financial corporations represented 2.88 trillion dollars in 2005. They increased three times more than fourteen years before, when the total amount was \$870 billion dollars (Fortune, 2005). A significant outcome of the Financial Reforms in Latin America is that the total amount of assets, at least in Argentina, Brazil and Mexico, has reached over \$660 billion dollars and net profits \$8.7 billion dollars, more than a 10% of total assets. In addition, it is worth mentioning specific features of these countries. In Argentina, the country's largest bank, Banco de la Nación Argentina, controls over \$14 billion dollars while the Banco de la Provincia de Buenos Aires controls over \$7 billion. In total, both state owned banks control over \$21 billion dollars, more than the third of total assets. Even though Argentina was a symbol of the wave of privatizations in the nineties and of the financial and economic crises that the region has witnessed since its independence from Spain, circumstances have been different in other countries, such as Mexico. This country's main commercial banks are in private hands. The first two institutions belong to Spain's principle transnational megaconglomerates, BBVA and Banco Santander Central Hispano, which together hold a total of \$65 billion dollars in assets. In addition, Citigroup-Banamex manages \$42 billion dollars of assets in the country, and HSBC \$18 billion.

The internationalization of the Mexican financial system has been very deep in comparison with Argentina and Brazil. While Brazil's banks hold assets of over \$422 billion dollars, and the first and third largest banks in this measure are state owned, Banco do Brasil holds \$90 billion dollars, and Caixa over \$55 billion. Santander Brasil, a Spanish bank, occupies the sixth place with approximately \$26 billion dollars. Comparing the amount of Brazil's total bank assets to the amount in hands of foreign agents, it is evident that foreign banks have a limited penetration and do not significantly influence the credit decisions of the Brazilian client.

While financial reforms in Latin America were successful in some countries, in others they signified a loss of credit sovereignty. Though reforms have focused mainly on financial balances, in spite of the fact that such balances have generated stability, but not greater employment and growth, governments that have criticized the structural changes and so-called "neoliberalism", have not worked towards attaining sustained growth for their countries. The economic reports of the ECLAC (Economic Commission for Latin America and the Caribbean), of the IADB (Inter-American Development Bank), and even the annual statements of the central banks of the region, show this point clearly. There is still continual support to prioritize the neutrality of monetary policy and inflation.

THE WASHINGTON CONSENSUS AND DEMOCRACY

From an academic perspective, relating the Washington Consensus to democracy poses a challenge. Schumpeter himself warned that it was necessary to worry about the “defenders of democracy”. First, the main objective of the Washington Consensus project is the deregulation of financial, productive and labor markets. Secondly, emphasis is given to the respect of private property and processes of privatization which mean a diminished role of the state so that companies, together with a free workforce, can take charge of national and international economic projects. Moreover, the restructuring of the productive bases of the economic order established since the end of the second world war, when public institutions and unions fulfilled a role in favoring a welfare state and when private and public investment coexisted in a coordinated way, has been explicitly exposed. In the eighties, deregulation and liberalization were presented as an alternative to the existing economic policy and the problems that it faced, such as the United States’ economic situation and the serious difficulties of foreign debt in the Latin American countries. The deregulation and opening of markets took place gradually by way of the stabilization plans that the IMF imposed on countries after crises that led to the devaluation of their respective currencies. Therefore, movements towards more democratic markets have been based on a market in which the chief actors are the large financial and industrial conglomerates.

THE WASHINGTON CONSENSUS

The recent essay “Obstáculos al Desarrollo: el paradigma del financiamiento en América Latina” (Correa and Girón, 2006) mentions that in order to understand the financial reforms in Latin America, it is necessary to at least be familiar with the works produced by the Inter-American Development Bank (IADB), the Center for Latin American Monetary Studies (CLAMS), the Institute for International Economics and the Economic Commission for Latin America and the Caribbean (ECLAC) (Hausmann, 1997)¹. In such institutions, the ten points of the Washington Consensus and how they have been applied have been studied.

THE RESULT OF THE REFORMS

There are three fundamental books to understand the Washington Consensus and its results. The first is Correa and Girón’s *Reforma*

1 On the part of CLAMS, it published Stallings, B. (2001). It is proper to mention three other books that pose the “urgency” of the reforms: Balassa, B. (1986), Williamson, J. (1990), which coins the concept of Washington Consensus, and Kuczynsky, P. and Williamson, J. (2003).

Financiera en América Latina (Correa and Girón, 2006), which explains the process of financial deregulation and the development paradigm up until the loss of national financial systems. Secondly, in the foreword of *After the Washington Consensus* (Kuczynski and Williamson, 2003), Fred Bergsten mentions that it is time for the world to overcome the tendentious and ideological debates that have caricatured the Washington Consensus as a neoliberal manifesto and to engage in a serious discussion about the reforms that the region needs in order to restore growth and equity. Finally, Ffrench Davis (2005) discusses the successes and failures of the reforms and the imminent and pressing need for “reforming the reforms” in Latin America. These books synthesize at least three decades of the financial-structural change that has isolated Latin American from the benefits of development.

Although the macroeconomic view of the financial reforms is important, the close relationship between those changes and their consequences for families is determinant in the consideration of inequalities between them. In his work, *Measuring International and Global Inequality* (2005), Branko Milanovic analyzes income distribution worldwide, relating household activities to traditional indicators of the per capita GDP. He comes to the conclusion that there has been a substantial increase in inequality on the international level, owing mainly to the economic reforms advocated in the Washington Consensus.

When making reference to the Washington Consensus and democracy, it is also necessary to evaluate not only the partisan vote in a society and public participation of men and women in parliaments or congresses, but the levels of satisfaction in regard to basic needs and in regard to increasing the opportunities that the economic system offers. Moreover, the access to human rights –health, education, housing, and employment– to which people have the right to in a society, must also be considered. Inequality, represented by the Human Development Index (HDI), expresses the lack of opportunities for the great majority of worldwide population. The Human Development Report (HDR, 2005) shows that the process of reform throughout the world has led to inequality, in spite of economic growth. Thus, the heterogeneity of international relations has deepened the dramatic inequality in income distribution in many countries. The aforementioned Report points out that 20% of the world’s population holds 75% of global income, the poorest 40% has 5% and the poorest 20% only 1.5%.

To this same effect, Milanovic (2005) draws attention to the fact that until the breakdown of the Bretton Woods agreements, there was generally only one supplier of resources per household. On

the other hand, in the last three decades the number of homes in which incomes stem from more than one purveyor has grown in an accentuated way. Not only has the wife become incorporated into the workforce, but within marginal families, even children bring money to the household.

On this point, Ffrench-Davis mentions that

[...] one and a half decade of intensive and profound reforms has left a mix of successes and failures [...] striking mistakes in the design of reforms have been committed, plus a weak capability to recognize failures and correct them at the right moment [...] the proposal is reforming the reforms (Ffrench-Davis, 2005:14).

Actually, the reforms that were a hope for governments, at least in Latin America, were applied without bearing in mind each country's specific conditions after the "lost decade". Not only did they not favor the strengthening of national business in the face of the foreign competition that invaded the industrial and financial sector, but even public institutions were debilitated. For instance, the importance of the development banking in strategic sectors of development in infrastructure was diminished in countries as Mexico. In contrast to what occurred in Argentina, as it was not possible to sell the public banks before the debacle, they were restructured, now have a high profitability and are helping towards an economic and social national project.

With regard to productive investments and the role of foreign direct investment, Latin America was not favored in the conformation of the new economic order, as were China and India. The characteristics of financing economic development in Latin America have been contrary to the interests of national projects. This confirms that in Latin America financial liberalization did not attain the expected results. Both Asia and Latin America experienced financial crises in the nineties, but development policies, reforms and the liberalization of financial systems were different in these regions (Kaminsky and Reinhart, 1998). The fact is that while in Asia financial systems emerged strengthened from the crisis; in some Latin America countries crises initiated the internationalization of financial services, a phenomenon that has gained strength in many cases.

STABILITY AND INSTABILITY IN MARKETS WITH DEMOCRACY

The great transformation of the IMF and democracy have posed a challenge for countries that make up the South-South-South circle. This challenge results from the fact that the path of development has followed the guidelines of the Washington Consensus in the wake of the rupture of the international monetary system. The

end of regulated markets accompanying the collapse of the Bretton Woods Agreements gave way to the dominance of the free market in the framework of deregulation and liberalization of productive and monetary circuits.

Large international corporations have been the main players in the post-Bretton Woods era and during the last two decades have quickly restructured through mergers and mega mergers, acquiring recently privatized companies, as has been the case in much of Latin America. Important transformations in the financial market have also taken place. Innovations have allowed a common space to further financial profits, thus deepening financial instability. It should not be omitted, however, that the monetary, fiscal and financial policy of United States has aimed to maintain the stability of macroeconomic indicators.

The result has been inequality in income distribution, unemployment and a decrease in consumption. How can one respond to these structural changes from the viewpoint of the South? The Human Development Report does not offer answers. The statistics indicate inequality; while developing countries have an HDI of 0,694; countries with high human development have one of 0,895. The GDP per capita indicator registers \$4,359 for developing countries, and \$25,665 for countries with high human development. The per capita GDP and the HDI indicators therefore represent an asymmetric relation between developing countries and those with high development. Therefore, the results of the Washington Consensus reforms in the countries of the South have not been optimal when taken into consideration the asymmetry in the opportunities of developing and developed countries. These include not only levels of income, education, life expectancy, literacy, sustainable access to water sources, health and nutrition, but also the lack of employment opportunities and a more equitable development financing in place of excessive external debt services or the interests paid to financial markets. In a democratic society, basic issues concerning the globalization processes and the ongoing reforms must be discussed again.

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ARTURO ANGUIANO

**MEXICO: THE CONTRADICTIONS AND
UNCERTAINTIES OF A TRUNCATED
DEMOCRATIC PROCESS**

JUST A FEW YEARS since the historic election in 2000 in which Vicente Fox Quesada, the candidate of the National Action Party (PAN) was elected as president of the Republic, it has become evident that it has failed the famous democratic transition that supposedly would end with political alternation in the government and with the rule of the transfigured regime of the Mexican Revolution. The votes that piled in then, with the sole aim of putting an end to the domination symbolized by the Institutional Revolutionary Party (PRI), were soon proved useless and a bad bet when an openly corporate government was formed, as this government repeated the same neoliberal policies, impregnated with a religious fundamentalism that has only reinforced the conservative line. The consensus that was built then has crumbled and the disenchantment, anger and even polarization and despair in society is manifest in all sectors (from the businessmen to the ecclesiastical hierarchy, with all types of political parties and civil organizations in between). The economy, which the first president of the post-PRI era had promised to expand, has barely managed to keep afloat, constantly thrashed and battered by the fluctuations in

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the US economy, on which it has become more dependant than ever since the North American Free Trade Agreement came into effect.

With Carlos Salinas de Gortari's government, Mexico had already tagged on to the first world through NAFTA, which basically meant the Mexican economy's total subjection to the rhythm, demands and weaknesses of its US counterpart. The so-called government of change headed by Fox –a former Coca Cola employee– continued with the same actions, encouraged and reinforced the same economic, social and political trends, and as a result, sooner rather than later it began to lose the credibility that it had won thanks to the votes and, in particular, to the defeat of the PRI's candidate, which at that moment was seen as a historic turning point.

THE FIRST PROFOUND CHANGE: CREDIBLE ELECTIONS

The mere respect for the votes for the election to the different offices, principally that of president of the Republic, even though it represents a significant novelty that marks the beginning of the twenty first century in Mexico, has in no way opened up channels for an in-depth change in the political regime and its workings. The fall of the PRI has loosened some of the corporate and patrimonial ties that for decades had deprived society of political space, ways to participate and democratic life. But all over the nation the patronage and hierarchical relationships, oppression and subjugation, injustice, lack of freedom and the persecution of those who are different or dissatisfied have been repeated, even increased, as have all the authoritarian reflections of an exclusive regime that never tolerated diversity, equalitarianism or democracy.

In a very short time the government of change turned into a grotesque caricature of the PRI government, ultimately showing the deep-roots and power of the methods, practices and conditions that the former regime had turned into a political culture that not only hasn't disappeared but has defined and impregnated the PAN government and all of the institutional political players. Furthermore, Vicente Fox will end his term with a terrible year in which, with ostentation, he has managed to reproduce the worst traits of the PRI regime: attacking the fragile autonomy of unions with the vertical imposition of leaders in the unions, repressive violence against social movements such as that of the miners in Lazaro Cárdenas, Las Truchas, Michoacan and the generalized violations of human rights with the excessive use of force used to punish the rebellious inhabitants of San Salvador Atenco in the State of Mexico. Even more, the last presidential elections on July 2nd, 2006, are reminiscent of the State elections run by the PRI, with the illegal use of vast state resources, the overwhelming presence of the media, elections that, as in the past, appear to be marked by fraud.

In fact, everything that existed before still exists but –as tends to happen in historic processes of change– it is degraded, decaying, obviously with new elements (democratic, federative, still weak), which even so fail to crystallize, despite the fact that (however much) they are presented as the democracy so much desired by everybody. Although weakened and with little negotiating capacity, the corporate machine keeps on rolling and its aging operators swing between past and present loyalties, but basically they remain subordinate to the presidency of the Republic. The so-called state party regime tumbled as soon as the president ceased to personify the undifferentiated amalgam of state control and the mechanism for the control and reproduction of the political class and consensus by means of a fictitious electoral processes.

However, the end of the state party regime that represented the PRI-government has not put an end to the partisan State, that is, the Party-State that is being reinvented by the PAN at the federal level and by the governing party itself and the other parties in the states. All over the country, the amalgamation of the state machinery and the party is being repeated, even if it is a different party. The illusion of a diverse, plural state community consolidated in its contradictions by the State and the intended universal representation this expresses with regard to the set of social relationships, are completely destroyed. On the contrary a thriving specific ratio of powers can be found that is biased towards the actions of the state machinery as a whole and redefines power in a mafia way. Rather than representing the society as a whole, the State subjugates and disintegrates the subordinate social nuclei and promotes the interests of globalized financial capital more than ever before.

Corporatism and presidentialism continue to move the Mexican political regime with its wealth of patronage and hierarchical relationships, permitted and repeated thanks to the corruption of all kinds, which is now more diversified and generalized than ever. Perhaps what is new is the fact that presidentialism has not been able to reinforce the characteristics that made it omniscient and all-powerful, and, on the contrary, it is incurably losing the almost mystic aura that characterized it. Its authority and capacity for action, mediation and negotiation, are gradually crumbling. For this reason, power seems to be fragmenting, regionally and locally, where, however, the presidentialist, corporate and patronage mechanisms and relationships are still being repeated. Institutional centralism is still in operation, although weakened, while the nation, as at the beginning of the last century, is fragmenting into regional and even autonomous powers. Although the “PRI-government” formula no longer exists centrally, all over the country –and regardless of which party it is– truncated mo-

dalities are being repeated, which are a new, updated version of the partisan, exclusive, abusive management of power.

In reality, the different parts of the perverse institutionality that articulated this kind of State-party, which took away the Mexicans' democratic liberties, such as the intended three autonomous powers (Executive, legislative and judicial), the federation and the municipality, have been continuously revamped, but they still reaffirm the predominance of a presidentialism that has apparently seen better times. Even so, it is present as a concept that governs and impregnates all relationships and articulations.

The presidentialism in which Vicente Fox Quesada's government takes refuge is a presidentialism without authority, like that of Ernest Zedillo Ponce de Leon (1994-2000), sifted with the frivolity of the figure of the presidential couple and the president's rural ignorance. It does not seem to be directed towards a political restructuring that would mean a real change of regime (the much-discussed reform of the State), or, even less, to be leading to a democratic regime, as yesterday's and today's apologists tirelessly claim.

Rather, we seem to be witnessing the limited expansion of the same authoritarian regime, with a presidentialism that upholds the majority of its functions and prerogatives but has touches of the president's inconsistent, unpredictable personality, from now on supported by a kind of political party system that guarantees the reproduction of a new political class in charge of managing the state machinery and occupying and giving meaning to the political area. The regime is getting broader, certain channels are becoming more flexible, functions are blended, institutional and other hierarchies are restructured, the power and the booty are divided up, certain relationships are rebuilt and a new political society is founded with restricted admission. This is the real "possible" state reform from above, the outcome of the PRI regime, closed, exclusive and historically removed from any kind of democracy: its self-reform, supported by the neoliberal transfiguration of the State and the dogged fundamentalism of the market that conditions, infuses and at the same time determines all the policies, actions and relationships, irrespective of the differences of tone or texture.

THE DEGRADATION OF THE INSTITUTIONS AND POLITICAL LIFE

But beyond the institutional political scenarios and, even within them, the intended government of change represented by Vicente Fox has not only failed to transform or rebuild another democratic regime on the ashes of the antiquated, decadent regime of the Mexican Revolution, but it is advancing in disarray towards its early decay and de-

cline. Firstly, all of the parts of the institutional regime that are still in effect (the so-called three powers, the corporate, presidentialism, and the incipient party system) are speeding down the path to delegitimation, inoperability and crisis.

The State, the executive power, embodied as they are in the person of the president, seems to be drifting in no clear direction, no matter how much it navigates within the parameters of the neoliberal policies. However, President Fox's ignorance and lack of ability do not hide his religious fundamentalism with which he imbues his actions or, less still, his subordination to the interests and imperial policies of the United States, in spite of the disloyalties of his friend, President George Bush. Beyond the much talked of conflict with Cuba, his actions that stand out most are those directed at denationalizing the energy sector, privatizing water, overprotecting financial capital, especially foreign banks, and leaving the farmers hit by the TLC without protection, as well as the wage-earner and excluded sectors.

The Congress of the Union is permanently tangled up in the pragmatic agreements, blackmails and negotiations that paralyze it for most of the time, but it almost invariably ends up endorsing the federal government's initiatives. The pretense of indigenous reform that goes against the current of the San Andrés Agreements signed by the government of Ernesto Zedillo and the Zapatista National Liberation Army (EZLN), was easily the most despicable case of conspiracy of interests against the excluded social sectors. The congresses –both federal and local– pay more obedience to the factious interests of the government and the parties which their members come from than to the worries and interests of the people they supposedly represent. The provocative use of the Chamber of Deputies to arbitrarily strip the head of the Federal District's Government, Andrés Manuel López Obrador, of his privileges and immunity and his office was indisputable evidence of the crisis in institutional representation. As the hard nucleus of the new political class, its dominant concern is to find the mechanisms for its perpetuation within the institutional political spaces (reelection, extension of terms of office, salaries, prerogatives, etc).

The so-called judicial power is the one that has been renewed least, without reforms that would enable it to transform the integration mechanisms, its composition and its functions. The president still carries decisive weight in the designation of its members and the judges. The administration of justice lacks autonomy and is subordinated politically and organically to the heads of the executive powers (national and state). The members of the judicial power –including the ministers of the Supreme Court of Justice of the Nation (SCJN)– have always and still do appear to be a closed, privileged, antidemocratic oligarchy,

without legitimacy, in a legalistic country riddled with laws, but without clear, unquestionable legality. It is the most antiquated part of the political class and its performance confirms the weakness of a State of law that doesn't govern but is interpreted at the convenience of the powers.

The political parties, and the party system in general, which are professed to be the most patent expression of the democratic change in the country, are going through an early crisis of credibility and identity. The beneficiaries of a system they have created themselves, have taken over the increasingly narrow political space in an exclusive manner. The absence of democracy in the country formed and conditioned them until the same authoritarian, patronage and obviously corrupt habits and inertias that characterized and still characterize the political regime, were reproduced in its structures and rules of operation. The active members were replaced by civil servants who were paid enormous sums of money, thanks to the public funds that the parties generously allotted to each other in compliance with the legal requirements they had agreed on themselves. The electoral franchise system excluded society at the same time as it permitted the expansion of the professional political class that operates politics as if it were a job for specialists. With no other bonds to society than those of patronage, without any pragmatic references or readings of the reality to identify them, the parties have mimicked each other, becoming indistinguishable, governed by the same political culture of patronage that characterized the PRI. Their internal struggles for power and money and the repeated scandals are no more than a part of the political show presented to society, to the audience that comprises the vast majority of its members.

The fact that institutional elections are finally being carried out under the organization and supervision of electoral bodies (the Federal Electoral Institute and its equivalents in the states) that are more or less autonomous from the authorities and that, for the same reason, the votes are counted and recorded with a certain degree of transparency, is definitely an advance since this was the central demand of the democratic movement. It represented a first step towards the effective emergence of the citizenry, whose rights have always been usurped by the State and its politico-corporate instruments. But this fundamental step is emptied of content so long as the climate of freedom continues to be segmented, differentiated, unrestricted at the top, restricted, conditioned and even regimented at the bottom. The political and social rights of the different components of Mexican society continue to be precarious, conditioned by the needs to repeat the consensus and the intended legitimacy of the regime that has not yet finished breaking with the structures or the corporate bonds that supported it. They

are basically regimented in such a way that they prevent escape from society and the advance of self-organization and autonomy measures that would unhinge or upset the political scene articulated by the *centrality of the electoral process*. Society continues to have a truncated citizenry that is under surveillance and under suspicion. No policy is accepted other than the institutional, state policy that gives the parties registered exclusivity of representation and of electoral and government action, this is institutional. The elections are still not really credible and the action of the arbiter –the Federal Electoral Institute– has resulted perverse, biased, leaning crudely towards the government and the right-wing party.

The community, the village, the neighborhood, the organization, the company, as public spaces where society can discuss and jointly decide on the issues that concern them and vitally involve them, that is, where the underdogs engage in politics, they are all subjected to a beating that disintegrates and paralyzes them, seeking to steer them towards the protected institutional channels, that is, towards the parties and their patronage methods of representation and management. Everywhere the patronage relationships are reproduced and consequently reinforce the corruption, subordination, and multiform repression against those who overstep the restricted forms of political participation that characterize the “new” institutionality set up under the sign of “change”. As always, the government fears the mobilization of society and, above all, the autonomization of its suppressed members who could rebel or resist.

The democracy that is supposed to have arrived in Mexico under the modernizing auspices of neoliberal globalization is consolidated in this way in electoral participation, around which witty scenes and shows are mounted, regulated by the ups and downs of the polls. The citizen, finally existing for the first time in Mexico, turns out to be more of a spectator who is watching a movie or television programs performed by professional actors who can create the illusion of getting through to him, filling him with expectations and dreams. But in practice he finds them foreign, volatile, as things that are imposed on him, that manipulate him and even end up confirming his abandonment and exclusion. Of course, as a part of the change, also advertised as the modernization of politics, in the country itself, they promote the full individualization of society, from now on composed of citizens in possession of individual rights that are consolidated in the recurring vote. That is, like a sort of citizens who are conceived as being part-time.

Everything collective, pertaining to the community or the neighborhood or society, is presented as disposable waste from the past and, therefore, social and collective rights are also undermined. Neither in

the unions, nor in the peasants' organizations, nor in the villages, nor even in the parties, has it been possible to pave the way for authentic democracy with no obstacles. Individual passivity, not collective action, is what is sought to support the new Mexican democracy.

AN EXCLUSIVE, OLIGARCHIC POLITICAL REGIME

Consequently, the centrality of the electoral process has been imposed on all the political processes, which overdetermines and resizes all of the organizations, relationships and political practices in the country. In this way, the parties are the inevitable and almost exclusive players in the political plot; they are projected as state organizations responsible for intervening in the interminable campaigns for the election of the institutional representatives to the different bodies (governments, congresses) and ensuring their performance. So then, they become the only way that is tolerated, officially recorded and legal, to enter an area of politics that has been degraded to the merely governmental and institutional. All of the others –organizations, communities, peoples and individuals– are excluded, condemned to their political marginalization, no longer just to socio-economic and cultural exclusion. Their voices are distorted or silenced, they are supplanted.

Supported by public funding and mechanisms that guarantee them the monopoly over political participation, the parties become electoral mechanisms without a political soul, stripped of their ideology and deprogrammed. Attended to and occupied only by professionals, (paid civil servants and state employees, people elected from different positions), the ideological and political profiles of the different parties become blurred due to the demands of the marketing and opinion polls that govern not only their political and governmental practices but also their internal processes, which become warped and break down. The parties' social bonds weaken and fade, just taking on the form of commercial relationships and the restricted exchange of favors and loyalties, generally circumstantial. In fact, all of the parties discard their distinguishing features and mimic each other, readopting and expanding the PRI culture –which obviously thrived as a perfect national political culture that was undemocratic, inequitable and generated inequality. The struggles and demands of the different sectors of society and the nation's economic, social, political and cultural needs, appear like a discordant echo from surveys and opinion polls, all from private agencies. For this reason the parties swing between frivolity and social autism, trapped in a show without worrying too much about the possible audience and their demands.

In the new political society that characterizes twentieth century Mexico, the parties and the different social sectors follow diverging

paths and it seems unlikely they will manage to cross. The parties appear to be booming, full of possibilities, rich from the public wealth, promoted by the modern media, participants in an increasingly exclusive political society with rules and enciphered codes, cohesive due to the indiscriminate exercise of power and where entry is only by means of an intricate initiation process supervised by the IFE. On the other hand, society is disintegrating and segmenting under the influence of the regressive economic policies that result in a massive loss of jobs and condemn ever broader and more diverse strata of the population to impoverishment, emigration and uncertainty. Although the corporatized social organizations as a whole are becoming thinner and losing any ability to negotiate (subordinated as never before) the autonomous social and civil institutions are the ones that suffer most from harassment by a “plural” (multiparty) government that seeks to displace them, paralyze them, corner them or co-opt them.

Disintegrated, persecuted, cornered, the subordinated social sectors are expelled from the political sphere, their human rights (political and social) are undermined and the only thing they are offered as a feasible alternative is the saving bond (commercial, patronage) with the parties and their government administrations or the parliamentary efforts that should favor them. The institutional channels appear to be the way to safeguard certain minimum means of existence through the generalized assistentialism in the form of social policy par excellence (once again multiparty), the complicated procedures in the different public institutions and the promise of informal jobs in exchange for the precarious jobs they have just lost. Although the countryside can't put up with any more, they maintain the supposedly free-market neoliberal policies –negatively affected by the provisions of NAFTA– and on the other hand, the solutions to the peasant's urgent demands are not to be seen anywhere. Scourged villages, disintegrating communities, desolate cities are depopulated; they emigrate in the search of dreams and hopes to the empire of no hope in the North.

The junk market promoted by the political parties and the “governments of change” –and not only by Fox's government– puts a distrustful society on the defensive, even though it appears to lack any real alternatives. The recurring electoral processes are the opportunity for a profusion of propaganda by all of the parties and the governments, who are bent on selling their candidates using marketing methods that barely distinguish one from the other, except perhaps by the colors that also seem to become blurred and merge into an enormous undifferentiated shapeless splotch. But the noise in the media, although deafening, contrasts visibly with the apathy shown by the people towards the never-ending election campaigns that are unlikely

to attract anybody to the polling stations except for the voters who are committed to one of the parties or party-governments.

The reformed political regime and its parties are living the fantasy of mere state politics, members of an exclusive political society with limited responsibility, without attending to or noticing the changing moods of the excluded society that has just been called to cast a vote without any options or prospects. Nobody wants to see that the ship is running adrift, with a captain who is unskilled and doesn't know where he's going, caught up in his childishness, disorder and confusion.

The very long, scandalous electoral campaign based on an excessively dirty war and uncontrolled spending, with the repetition of the worst patronage practices of the PRI, which fabricated totally one-sided State elections, has confirmed how far we are from landing in a truly democratic regime, whatever the adjective used to describe it. The scandals surrounding the corruption in the presidential family uncovered a very advanced process of rot that expresses a prolonged political culture based on a corruption that nobody has bothered to eradicate and really change. In the parties, this stems from the breaking of the social bonds that ought to characterize the parties.

The offensive of the impeachment that was maintained for nearly a year by president Fox and his allies (the main parties, the businessmen and the media) to disqualify Andres Manuel Lopez Obrador (of the Democratic Revolution Party) as the main contender for the already well-advanced presidential succession, rarified and polarized the national political atmosphere in 2005, preparing the institutional political crisis scenario we are experiencing now after the unclear and not very credible election results on July 2nd, 2006, which gave a very narrow victory to the PAN candidate, Felipe Calderon. Deprived of its social element, politics assumes the logic of the market, of crude competition, the logic of profit that imposes itself with neither scruples nor principles, nor programs, nor rules nor ethical considerations of any worth, in the search for competitiveness and political success, which is nothing more than the accumulation of material assets, public offices and the opportunity to be heard. Marketing replaces political strategies, private consultancy firms replace programs and advertising, mostly in the media, replaces mobilizations, the political practice of the social sectors.

The opacity of the political parties permits all kinds of alliances aimed at achieving a particular policy or, particularly, entered into in order to obtain different kinds of elective offices. But the political show, that of crude power, bores and cloy. It is found clearly alien and imposed, and a means of achieving personal ambitions; the players demonstrate their blunders, their lack of ability and capacity, their

utter lack of sensitivity and their imperviousness towards their environment. Now when they are only just starting out, the parties are in crisis, socially isolated, caught up in egocentric soliloquies, dazzled by power and money and their driving ambition that keeps them united in spite of their internal squabbles, which paralyze them.

ALTERNATIVES IN THE FACE OF THE DISORDER OF THOSE AT THE TOP

In general, the government of change represented by Vicente Fox and the PAN, like the other parties' local governments of change, was in a permanent state of disorder, putting into practice erratic policies that reproduced inequality, the weakening of the economy, the tearing of the social fabric and the loss of the nation's viability, not just because of the porosity of the borders caused by neoliberal globalization, but also due to the economic, social and political subordination to the empire of the North. From Miguel de la Madrid (1982 to 1988) to Fox, the Mexican nation has been disarticulated, torn apart, stripped of its national resources and of policies that would reaffirm its consistency, its viability as a nation that is independent, even though it is autonomously incorporated in a planet without opportunities but plagued with contradictions and imperial restructurings.

The nation's loss of identity and viability is due to the fact that the whole country, its economy, its institutions, its society, have been transfigured under the onslaught of neoliberal globalization and the material and cultural transformations that superimpose and aim at a "westernization" (Americanization) that sweeps away and dismantles traditions, histories and the country's own native, local and national cultures. In this way, not only do the economy and political forms dance to the tune of neoliberal hegemony, which is more fragile today in spite of everything, but there is also an attempt to overthrow and wash out history, the life of peoples and societies that are much richer and diverse than those imposed by technological development and the power of the media.

Vicente Fox's government, the different institutional actors in the form of parties, and his followers are leading the country adrift, in no direction, battered violently by the hurricane winds of the war of expansion, the oligopolic, oligophrenic world economy charged with crises and the instability of political institutions emptied of social content and delegitimized in the eyes of societies that resist exclusion and being reduced to the status of a mere audience to the perverse, degrading spectacles of the others, of the government or the perverted powers who have come down in the world. However, we shouldn't fool ourselves and just see the disorder or lack of skill of a frivolous, ignorant pilot or the ambition and corrupt unprogrammed ineptness

of the whole political class. In any case, they act within the unchallengeable parameters of neoliberalism, which they consider to be an unavoidable misfortune, and as a result the first things to suffer are the living, working, material and cultural conditions of the workers, of the subordinated social strata.

That has transformed institutional politics, merely state politics and the politics of the government. The wager is to prevent the formation and above all organization of autonomous alternatives that would act under different rules and logics than those of the market and, on the contrary, would give priority to the community. This means that they would reject the exclusive, oppressive situation reproduced by neoliberalism in the form of a devastating, fatal capitalist order, and, conversely, from now on seek to construct a web of relationships, organizations and policies that would undermine the rule of money and perverse individuality and aim towards an equalitarian, just, free, libertarian future.

All the institutional actors are acting against the latter –from the PAN to the PRD including the PRI and the governments and institutional representatives in every corner of the country. The whole political regime, its rules for funding, organization, management and representation have been created to prevent the hostilities of the other actors who are excluded, despised and feared indiscriminately and without any opportunity.

The sordid political atmosphere, heavily polluted by marketing and the degradation of institutional politics rely on disorder and chaos as a way to increase and spread mistrust, discouragement and apathy in society everywhere. Therefore, it is not surprising that the election campaign of 2006 to choose a new president of the Republic was characterized by the imposition of a politics of fear that led to the extreme polarization of society. A society that was paralyzed would provide room to maneuver for the mounting and policies of the show, however depressing and terrible it might be. A society that was mobilized and critical would not cease to resist the stupidity and the economic and political aggression repeated by neoliberalism. For this reason, the paths of the parties and other institutional players cross, without stumbling on the paths that are being opened up by society, its communities, peoples and collective components.

The political crisis that obviously characterizes the Mexican situation is really their problem, that of the political class, the power of the privileged blinded by their long and apparently undisputed power. The restricted democracy that they foster cannot be resolved by a complete reorganization of social life since it has become an exclusive option, for just a few, elitist, only for the so-called political class. The others, the excluded, the underdogs, the society that resists, maintains its criti-

cal edge and even irony as conditions for its existence, are only just beginning to renew bonds, put two and two together and recover their organizational, political and cultural traditions decimated by those at the top. It is not going through any crisis, except, perhaps, birth pangs. It is preparing to act, to resist, shaking off the imposed inertias and alienations and seeking to reverse an unfavorable ratio of power. It is barely beginning to get going, stealthily, determinedly, like in the early morning of New Year's Day 1994. In the face of the crisis in state politics and the reduction of society's public spaces, the EZLN began the *Other Campaign* as a way to start repairing the social fabric and the possibilities of another politics based on society's self-organization.

In the struggles, in the attempts at restructuring the organizations, in the defense of autonomies, self-government and self-organization, even in mere irritation and protest, it is carving out –on the fringe of state politics and the political institutional society– another way to do politics, the politics of the oppressed, politics understood as the vital resistance of workers, indigenous people, peasants, women, young people, intellectuals, etc. The politics that will not allow itself to become trapped in the present, but rather lives in it looking towards the future.

It would appear that the state politics and the politics from below cannot cross, they follow different paths and their actors and destinations will no doubt be different. In view of the scandalous struggle for power without alternatives, faced by all the parties in the permanent election campaign that characterizes the reupdated regime, society needs to advance with its reorganization from below, experimenting with new, democratic methods of reorganization and participation, working hard to outline political alternatives that will fight for justice, equality and the freedom to do a different politics under the influence of the regressive economic policies that result in a massive loss of jobs and condemn ever broader and more diverse strata of the population to impoverishment, emigration and uncertainty.

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**THE AMERICAN LED GLOBALIZATION
AS THE MAIN OBSTACLE TO THE
DEVELOPMENT OF DEMOCRACY
IN THE ARAB WORLD AND AFRICA**

IT IS WELL KNOWN how American imperialist capitalism adopted the neo-liberal trend of thought publicized by the extremely reactionary schools of ideology during the second half of the 20th century, and put in practice by the multinational companies, most of which are owned by American capital. Needless to reiterate the globalized neo-liberal practices in the sphere of military domination and territorial occupation on one hand, and the subjugation of the international legal instances as embodied in the United Nations and its various institutions to American imperialism, on the other hand. Indeed, we encounter numerous aspects of American arrogance and coercion, both in relation to the other capitalist powers in Europe and Asia, and to the dominated States in the Third World. Such arrogance is clearly manifested in the political and economic choices forced upon these states, or as concerns the right of these peoples to determine their own destinies, and safeguard their territorial integrity.

We shall study here, three aspects of the problem:

- The Political Framework of the Arab/African Region and how it is being readjusted to suit the American plans for globalization.

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- How the various Imperialist Projects proposed for the Region distort its Democratic Development.
- The existing forms of Resistance in the Region, and the possibility of developing the framework of the Movement of the Countries of the South.

THE POLITICAL FRAMEWORK

The Region's contacts with the modern global system is not a recent occurrence, as the nationalist regimes in the Arab World (Mohammad Aly in Egypt, and Kheir Ed-Dine Pasha in Tunisia, etc.) tried to modernize their countries relying on the global movement of modernization. Hence, the first infiltration by Europeans into Egypt and the Levant, followed by European colonization in these Countries and the rest of Africa. However, soon the emerging Nationalist Movements and the Pan Arab and Pan African Movements, began their active opposition to this European led form of globalization, in particular with the onslaught of the world wars, and the emergence of the United States as the strongest economy after the second world war.

Thus, the US moved into the Middle East, taking advantage of the past projects of the European Powers in the region, in particular Britain. Hence the US went to the Gulf Area for its oil production in Iraq and Iran, then in Saudi Arabia, and also took advantage of the British projects of establishing new states on a religious basis in Pakistan, Israel and the Arab Peninsula. As a result, the US was able to establish its military presence in order to safeguard its interests, menaced by the communist "threat" and the rise of the Nationalist Movements in the region.

All through the 1950's and 1960's we find a proliferation of US led projects under the umbrella of the policy of containment to preserve the region under its hegemony, starting from the Truman Doctrine (1949), the quadri partite (Military) Command (1951), the Bagdad Pact (1955) and the Eisenhower Doctrine (1957) and afterwards to fill the void left by the retreat of Britain and France after their aggression on Egypt in 1956. All these projects were designed to give full support to the dictatorships, and reactionary regimes in Iran, Pakistan, the Gulf States and North Africa. This went hand in hand with the encouragement of the massive establishment of formal independent regimes in Africa, which were soon followed by military dictatorships, with "Coups" in key African Countries (Congo, Ghana, Nigeria, Mali) having full American support.

It is to be noted that for almost half a century, the US strived to push the Arab Countries into a series of wider pacts in order to resist nationalist trends, and the aspiration of the Arab peoples to establish

their national unity, and resist the Zionist Israeli State, the mainstay of all the imperialist projects in the region. It is also to be noted that the US did not mind whether the states it backed up were or were not democratic, as it had to face strong pan movements supported by Nationalist States (the Arab League and Organization of African Unity).

The resistance of these Nationalist States was further strengthened by the participation in the Movement of Non Aligned States, to be followed by the movement of the group of 77 (G 77), and the full support of the Soviet Union and People's Republic of China. Such resistance had the support of the popular masses that refused the American hegemony, and looked forward to more democratic social and political development as a corollary to the social concessions granted.

The renaissance and modernization projects in the Nationalist States, in the second half of the 20th century, were oriented towards the West, in an attempt to catch up with the progress made during the two previous centuries. This meant that the resistance of these states towards imperialist hegemony could not be radical. In the meantime, the imperialist development in alien regimes such as that of Israel, or the South African apartheid, or in fully reactionary regimes such as those of Iran and Pakistan, opened wide vistas for the imperialist projects in the region. The incessant strife between these regimes and the National Liberation States helped obstruct the normal evolution of these latter States into full democratic experiences. Hence, the explanation of the collapse of the National Liberation States is twofold, the shortcomings of the bourgeois leaderships, was coupled with foreign intervention, or covert intrigue. This remains true in the Arab World and Africa today.

With the onslaught of the hegemony of American capital, and the multi-nationals on the world economy, in particular from the 1970's on, such hegemony projects put an end to any national progress or independent development in the Third World Countries including the Arab World. Very little resistance now faces the reactionary or comprador regimes in the Arab World, while some cases of armed struggle are still discerned in various parts of Africa.

The widespread acceptance by the new classes in control of the region of the structural adjustment policies imposed by the international financial institutions (the IMF, the World Bank, etc.), has led to rampant pauperization and increased social injustice, paralyzing all nationalist, social or political action. The Gulf petrodollars and the accompanying consumerist models, were partly responsible for much of the social disorders. They also promoted waves of Salafi Fundamentalist Islam, which pervaded the Arab World, and opposed the Nasserist and Socialist trends and their social and political concepts.

Most of the Arab modernization process was also attached to the liberal political concepts, and was satisfied by the nominal forms of multi-party systems that were announced in Egypt, Tunisia, Senegal and Kenya, etc aiming at accepting the new economic policies. However, it was soon clear that the fast rising American influence would stifle all hopes of democratization of these regimes. The new American inspired economic policies were designed to promote the interests of both the dominant American capital, and its allies in the comprador regimes, which were employed to execute specific American tasks, as is illustrated by the following cases:

- The full support of the Sadat regime in Egypt, which under the guise of multi-party democracy, stifled all manner of opposition by the masses, and gave full rein to the Muslim fundamentalists, in order to stand up to the leftist opposition at the head of the mass movement. In the mean time, the regime coordinated its efforts with those of the reactionary regimes in the Gulf against the Soviet supported government in Afghanistan, and encouraged Egyptian Islamists to join the Bin Laden led groups there. The Sadat Regime also supported the US imperialist projects in Congo, Angola, Ethiopia and Sudan. It also aborted the partial victory of the Egyptian army against the Israeli occupation in 1973, by signing the Camp David peace agreements with Israel (1979).
- The support given to the non democratic regime of Saddam Hussein in Iraq during his aggressive war against the Islamic Regime in Iran. Curiously enough, the US never noticed the dictatorial nature of the regime until the end of that war, when Saddam Hussein thought he had the approval of the US to annex Kuwait.
- By the 1990's, the hegemony of the imperialist capitalist system was consecrated by the disintegration of the Soviet Union, and the establishment of a uni-polar system dominated by the US. As a corollary, the IMF and the World Bank had successfully coerced all third world countries into adopting the structural adjustment policies. In the ensuing euphoria, the "victorious" dominant media crowed in praise of the "democratic" changes in Eastern Europe and the republics of the former Soviet Union, while full support was given to the dictatorial regimes in the Middle East and Africa, in order to safeguard the interests of the US and its imperialist allies by securing the flow of oil from the Gulf, and the stability of their lackeys in Egypt, and

elsewhere. Meanwhile, a country as Iraq was literally blockaded, while the rest of the Arab countries were drowned in their internal problems, such as to exclude any aspirations for any regional cooperation, or community of interests. This virtual blockade led to complete paralysis of all regional bodies such as the Arab League or the Organization of African Unity. This ideological siege and the absence of any real hope for progress, has left the ground free for all manner of fundamentalist religious trends to run loose in the Arab region (the terrorist attacks in Egypt and Algeria through out the 1990's).

In the world arena, the communist threat was replaced by the threat of Islam, or Islamic terrorism, and the struggle of civilizations became the favorite slogan. This obliged the vassal regimes in the region to combat fundamentalism in order to remain in power. More serious was the sanctification of the "market doctrine", to the extent that many onetime socialists adopted the discourse of the free market! Needless to say, that Islamic thought is essentially market oriented, in accordance with the Prophet's saying: "90% of all wealth comes from Trade". Another Islamic attribute is their innate abhorrence to democracy, and their enmity to the National State in favor of Pan Islamism. All this sends more water into the mill of the globalized system.

The above considerations have paved the way for the dramatic events at the start of the new century, while a social base favorable to the hegemony of the single pole, was crystallized by the prevalence of the consumerist tendencies among the bourgeoisie and even among many popular masses, and the infatuation of the intellectuals with American computers, science and technology. The situation is worsened by the influx of the rural population into the urban centers, which undermines the resistance possibilities of the working classes. No wonder then if such weakness of the social and political organizations has left the field open for the imperialist projects to be implemented, and to give much precedence to its Israeli advance post in the region.

THE IMPERIALIST PROJECTS IN THE REGION DISTORT ITS DEMOCRATIC DEVELOPMENT

After 11 September 2001, the US global strategy became more aggressive, and more stress was given to the Middle East region. The imperialist political discourse gave great attention to the supposed Iraqi infractions of UN resolutions, the grave violations of human rights in Afghanistan, or the troubled situations in Algeria or in the African great lakes region. It was clear that the Americans as the leaders of the politi-

cal and military globalization process, were using their domination of NATO, their transnational monopolies, and their upper hand in the global media, to secure their vested interests in the sources of oil and other raw materials, and their political influence in the zones of conflict. This meant weakening the positions of their European “Allies” on one hand, subjugating all UN institutions and even bodies of regional standing on the other hand, and finally supporting subservient regimes in their sphere of influence, irrespective of their being democratic or not.

The events of 11 September 2001, were a boon in that respect, as they gave American Imperialism the opportunity to adopt the role of the “victim” of Islamic aggression, and to take up the role of the defender of the camp of democracy all over the world. It was assumed that “terrorism” was the enemy of democracy in the first place, and indeed, there was no mention in the terrorist discourse of any enmity to capitalism as such.

The important document issued in September 2002 under the title “The National Security Strategy of the United States”, was very revealing in this respect. It tried to cloak the aims of the American Leadership in moral terms, glorifying the “democracy” of the Free Market, and the American way of life. Followed by the Bush vision in the strategy of March 2006, U.S extolled the Global Leadership, stressing the unity of interests of the (international) community, and those of the (American) individual, and pinpointed the public enemy of the civilized world, embodied in the axis of evil, and the rogue states. This meant the US had a “Spiritual Mission” defined by the New Conservatives and entrusted by them to President George W. Bush, who would then start his “Crusade” against religious terror (Islamic, of course), and the Dictatorships that support such terrorism (yet Saddam had no relations with such terrorism!).

We should point out to two main tenets of this American Strategy: The Democracy of the Market, and The American Internationalism.

The first was the main basic tenet for imposing its sphere of influence through the World Trade Organization in order to open all vistas for the American economy. The second was the framework within which it would be able to impose a “democratic” regime here, or get rid of an unwanted regime there, phrasing it as “building the infrastructure of Democracy”. For the purpose of competition with European influence, it was necessary to implement certain projects of collective organizations under its wing, and combating other projects it frowned down upon.

It may be argued that the logic of the market economy enhances the chances of liberal democracy, in the case of liberal capitalist development. But in a region like the Middle East where such development

is absent because of the supremacy of the Rent “tributary” economy (oil rent in many countries), and a history of despotic rule, nearer to the Asiatic mode of production, such a market economy leads to despotism rather than democracy. Under these conditions, the despotic regimes in the region, air a formal discourse about the “liberation of Palestine”, or the imperatives of the Arab Israeli conflict, or the threat of Islamic fundamentalism jumping into power, etc. On the level of the African Continent, the regimes try to justify their despotism by a discourse on ethnic strife, or the burden of foreign debts, or the injustice of the world trade conditions, etc.

Under the guise of the world war on terrorism, at the beginning of the 21st century, various forms of regional collectives were promoted, the ugliest being the “broader” Middle East imposed on the Arab World. In sub Saharan Africa, no such collective was proposed, precedence being given to the spread of formal liberal democracy, in order to promote market economy, and the traffic of lethal arms to intensify ethnic strife. In both regions however, the aim is to prop up regimes loyal to the US, and block any attempt at a South/South dialogue, or coalition.

In order to implement its new World Strategy, the US let loose all its arsenal of projects, and proposed policies. The observer will certainly note the following:

- Many sessions of the World Economic Forum of Davos outside Europe were held in Arab countries (Egypt, Qatar, Jordan, Morocco and Bahrein), also an important session of the WTO was held in Qatar (Doha).
- The proposed projects for regional collectives under the various headings of the Broader or New Middle East, or other denominations, all emanate directly from the American leadership (Colin Powel, or Condoleeza Rice). All such projects were proposed after severe blows to the Arab Countries were handed down by the US and their forward post of Israel, to Iraq, Palestine, Sudan and now, Lebanon.
- These proposed American projects compete with older European projects of integration of the Arab Countries with their European counterparts (The Lisbon or the Euromed initiatives). They also aim at dislodging all previous Arab projects of cooperation or integration (The common Arab market, Afro Arab cooperation, the non aligned nations or the group of 77).

These US sponsored projects were preceded by an ideological barrage of propaganda about terrorism being an innate product of the

Region (due to the nature of Islam, or the nature of the Arabs). The aim was to put pressure on the Arab peoples and governments, and influence their intellectuals, to prove the fallacy of the accusation of terrorism by accepting the proposed projects. Thus it managed not only to promote projects that secure political dominance, but also enlist the intellectuals, and civil society, and even the “liberal” left, for its implementation. Hence, the American projects called for the ideological “dialogue” with Arab Intellectuals, and managed to mobilize some representatives of the intellectual movements, and civil society, into colloques for “political reform” and “promotion of democracy” in conformity with the American agenda, and not the real answer to the crisis of democracy in the region.

We shall monitor here some of the proposed initiatives as examples of the tireless efforts of US diplomacy in this respect, but a comprehensive study of such projects is indicated for more specialized fora.

After President Bush announced his “Strategic Vision of the US” (Sept. 2002), his Secretary of State, Colin Powell, announced his initiative for “partnership US/Middle East, for Hope Building” in December 2002. This initiative specified a vast Middle East to include the countries from Pakistan to the Maghreb (but later, other plans were envisaged for the greater Maghreb). In this huge area, that includes Israel, Turkey, Iran and Pakistan, reminiscent of the old Middle East Pacts of the 1950’s, the Arab group would be a minority, and would find itself cooperating with Israel, and virtually under its hegemony, without any mention of a just solution of the core of the Arab Israeli conflict, i.e. the Palestinian Problem. However, the hidden implication was the right to eliminate “rogue” regimes, such as the Taliban in Afghanistan, and a few months later, the invasion of Iraq (March 2003). Here, the US imposed its arbitrary right to destroy any regime it considers inimical to its hegemony (and that of its main ally in the region, Israel), and that by brute force, irrespective of all its discourse about democracy and human rights.

Two years later, the initiative was renamed the “Broader Middle East”, to include the same region minus the francophone North African, which was to be negotiated with France and Western Europe. The project is not confined to the political reform of the region, but also economic reform (private entrepreneurs, and micro projects), social reform (empowerment of women), and intellectual reform (re-appraisal of education). The overall ideological framework, aims at reforming the system of values to combat the fundamental heritage that develops into terrorism. The project was announced in February 2004, and was expected to be endorsed by the Arab Summit in March, and approved by the G-8 in April of the same year. However, the Arab

Summit failed to endorse the project, claiming refutation of the “imported reform!” and tried to conciliate the Americans by regimenting some intellectuals in order to “authenticate political reform and democracy”. One such meeting was held in the Biblioteca Alexandrina, attended by some one hundred intellectuals who formulated “The Alexandria Declaration”. This Declaration adopted the plans for political reform, so as to become a local aspiration, but its economic agenda was nothing more than the neo-liberal agenda of market economy and dismantling of all public sector projects. This belied its pious advocacy of the values of liberties, democracy and peace, reiterated ad nauseum by the American discourse. As American globalization is not confined to the announcement of some vague projects, it tries to instill its concepts deeply into society, to preempt any unforeseen steps in pursuit of real democratic reform. Hence the hasty participation of its “friends” in various formations such as the “Future Forum” active in a wide area from Maghreb to Bahrain and Qatar, through Jordan. Similarly, there are projects of so called promotion of democracy, financed openly by American Embassies.

Such progress for this Middle East initiative, must be linked to the “American Internationalism”, which was announced several years before. Thus, some pro American organizations and personalities, from Poland, Chile, Mali, South Africa, India and Mexico, announced in 2000, a so called “Community of Democracies”. A typical “Democratic Internationalism” reminiscent of the second internationale of old times, or the Atlantic organizations after World War II, to oppose the socialist camp.

This “Internationalism” held its preparatory meetings in Warsaw, and was attended by 110 Countries, including the former Soviet Republics, Third World Countries, and presided by the United States. This International proceeded actively after the announcement of the US Strategy in 2002, and chose a Council in Chile, and an executive Secretariat from the State Department and some member States, The Secretariat helped create the “World Forum for Democracy”, and a civil society forum for the member states. The literature of this Forum is published in Chile under the heading “Participa”.

Thus we are confronted by a private international organization, more encompassing in its scope than the Davos Forum, or the G-8, and directed against popular activities and the World Social Forum. As it includes many third world countries, including India, South Africa and Mexico, which have special preponderance within the third world, it presents a real obstacle to any South/South dialogue. By such means, the US are not containing the Arab World and Africa alone, but the whole World Wide Movement for freedom and real democ-

racy. Despite all these efforts to dupe Third World Peoples, the US exonerate themselves from all restrictions on their activities against humanity or the environment, as is manifested by excepting their citizens from all responsibility of their acts violating the jurisdiction of the International Criminal Court, or the Kyoto agreement on the Environment, or even the rules of the World Trade Organization. As for the American Invasion of Iraq, or the Israeli criminal aggression on Lebanon, no comment is needed.

CURRENT RESISTANCE AND ITS DEVELOPMENT WITHIN THE SOUTH/SOUTH FRAMEWORK

From the above, we realize that the American globalization project is not merely a project of economic domination by world capitalism, nor is it the use of military might to dominate one region or another in the third world, but it is also an ideological project, to be implemented in the spheres of information, education and values. It is aimed at the spirit and life of our peoples, hence a serious effort must be deployed by the intellectuals of the third world to combat such projects.

As the Arab World and Africa make up a region of extreme strategic importance, and an essential source of oil and mineral raw materials, American imperialism tries to paralyze the movement of the peoples of the region, as well as any cooperation with outside forces. In the meantime, it does not hesitate to use brute military force directly or through its main allies to stifle any attempt at independence. Witness its aggression in Iraq, its blatant threats to Syria, Iran, or the Israeli sustained aggression on the Palestinian People, and its destruction of Lebanon. Under such conditions, Condoleeza Rice reiterates the discourse about the "New" Middle East, meaning by that qualification, building it out of communal, religious and ethnic fragments, to fit what she once called, the policy of constructive chaos.

We can note that the masses are strongly aware of the imperialist plans but they are still uprising spontaneously in many countries of the South. The social movements and political parties do not express a strong resistance, specially in the Arab world; where they are more present on issues related to national questions or at the international level.

Under such conditions, the intellectuals of the South should reassess their analysis of the regional systems, the developmental state, and the concept of limited sovereignty, and international legitimacy. They should also reassess the concept of liberal democracy in the South, in the absence of any real market economy.

In light of such reassessment, we believe the obvious aim will be the reactivation of the three continent's movement started in 1965, in

pursuit of whose first conference in 1966, Mehdi Bin Barka was assassinated. I believe the time is ripe for reinvigorating this community of nations in the presence of the following elements:

- The current vigor of the mass movement in Latin America, with its Bolivarian or socialist trends.
- The probable reactivation of the Arab mass movement, in the light of the stand of the Palestinian and Lebanese Peoples to Israeli aggression, and the manifestations of solidarity with them from the Peoples of the Third World.
- The sustained activity of the World Social Forum in Africa, in the light of the Durban session (July 2006), and the Nairobi session (January 2007).

Thus an alternative democratic globalization to replace the dominant American led globalization, may be possible.

PATRICK BOND*

THE LOOTING OF AFRICA¹

INTRODUCTION

Unequal trade and investment relationships are nothing new for Africa, although beginning in 2005 the world's attention was drawn to Africa's plight as never before. However, in contrast to the neo-orthodox strategy implied by Gordon Brown, Bono, Bob Geldoff and other mainstream campaigners, Africa's deepening integration into the world economy has typically generated not wealth but the outflow of wealth. There is new evidence available to demonstrate this conclusively, just as the current fusion of neoliberalism and neoconservatism consolidates.

In fact, the deeper global power relations that keep Africa down (and, simultaneously, African elites shored up) should have been obvious to the world during 2005. It was a year in which numerous events

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1 A longer version of the argument under the title *Looting Africa: The Economics of Exploitation* is published by Zed Books in July 2006.

were lined up to ostensibly help liberate Africa from poverty and powerlessness, to provide relief from crushing debt loads, to double aid and to establish a 'development round' of trade:

- the mobilization of NGO-driven citizens campaigns like Britain's Make Poverty History and the Johannesburg-based Global Call to Action Against Poverty (throughout 2005);
- Tony Blair's Commission for Africa (February);
- The main creditor countries' debt relief proposal (June);
- a tour of Africa by the new World Bank president Paul Wolfowitz (June);
- the G8 Gleneagles debt and aid commitments (July);
- the Live 8 consciousness-raising concerts (July);
- the United Nations' Millennium Development Goals review (September);
- the return to Nigeria of monies looted by Sani Abacha and deposited in Swiss bank accounts (September);
- the IMF/World Bank annual meeting addressing debt and Third World 'voice' (September);
- a large debt relief package for Nigeria (October); and
- the deal done at the World Trade Organization's ministerial summit in Hong Kong (December).

These all revealed global-elite hypocrisy and power relations which remained impervious to advocacy, solidarity and democratization. At best, partial critiques of imperial power emerged amidst the cacophony of all-white rock concerts and political grandstanding. At worst, polite public discourse tactfully avoided capital's blustering violence, from Nigeria's oil-soaked Delta to northeastern Congo's gold mines to Botswana's diamond finds to Sudan's killing fields. Most of the London charity NGO strategies ensured that core issue areas –debt, aid, trade and investment– would be addressed in only the most superficial ways. The 2005 events also revealed the limits of celebrity-chasing tactics aimed at intra-elite persuasion rather than pressure. Tragically, the actual conditions faced by most people on the continent continued to deteriorate.

Today, Africa is still getting progressively poorer, with per capita incomes in many countries below those of the 1950s-60s era of independence. If we consider even the most banal measure of poverty, most Sub-Saharan African countries suffered an increase in the per-

centage of people with income of less than \$1/day during the 1980s and 1990s, the World Bank itself concedes² (World Bank, 2005c:66). Not just poverty but also inequality must be central to the analysis, for Africa hosts some of the world's worst cases. The following countries exceed a 0.50 Gini coefficient score, placing them at the very top of the world's ranking: Namibia, Botswana, the Central African Republic, Swaziland, Lesotho, South Africa, Zambia, Malawi, The Gambia and Zimbabwe.

Table 1
African inequality (Gini coefficients by country, early 2000s)*

Namibia	72	Burundi	41
Botswana	65	Nigeria	41
Central African Republic	62	Burkina Faso	40
Swaziland	61	Angola	39
Lesotho	58	Senegal	39
South Africa	57	Mozambique	39
Zambia	53	Mali	38
Malawi	51	Ghana	38
The Gambia	50	Guinea	38
Zimbabwe	50	Mauritania	37
Madagascar	46	Benin	36
Cote d'Ivoire	43	Tanzania	35
Kenya	42	Niger	33
Uganda	42	Etiopía	28
Cameroon	41	Mauritius	19

Source: World Bank (2005), World Development Report 2006: Equity and Development, Washington, p.39.

* A Gini score of 0 is perfect equality while 100 indicates that one person has all the income and all others have none. Scores above .50 represent quite extreme conditions. Bank staff calculated Gini coefficients from household survey data, and dates differ by data availability.

The looting of Africa has also been intensely gendered. Women are the main victims of systemic poverty and inequality, whether in productive circuits of capital (increasingly subject to sweatshop conditions)

2 For a critique of the \$/day measure, see Reddy, S. (2005).

or in the 'sphere of reproduction' of households and labour markets, where much primitive accumulation occurs through unequal gender power relations.—There are many ways, Dzodzi Tsikata and Joanna Kerr have shown, that markets and mainstream economic policy 'perpetuate women's subordination' (Tsikata and Kerr, 2002).

In particular, the denial of Africans' access to food, medicines, energy and even water is a common reflection of neoliberal dominance in social policy, as people who are surplus to capitalism's labour power requirements find that they had better fend for themselves—or simply die. In even relatively prosperous South Africa, an early death for millions—disproportionately women—was the outcome of state and employer reaction to the AIDS epidemic, with cost-benefit analyses demonstrating to the state and capital that keeping most of the country's five to six million HIV-positive people alive through patented medicines cost more than the people were 'worth'³.

The decimated social wage is one indicator of Africa's amplified underdevelopment in recent years. In the pages that follow, however, we focus on the material processes of Africa's underdevelopment via trade and extractive-oriented investment, largely through the depletion of natural resources. This is an area of research that has already helped catalyse the ecological debt and reparations movement, and that has sufficient intellectual standing to be the basis of a recent World Bank study, *Where is the Wealth of Nations?* (World Bank, 2005a) (A similar critique could be levelled against financial processes, showing how the June 2005 G7 Finance Ministers' debt relief deal perpetuates rather than ends debt peonage⁴.)

The story is not new, of course. We can never afford ourselves the luxury of forgetting the historical legacy of a continent *looted*: trade by force dating back centuries; slavery that uprooted around 12 million Africans; land grabs; vicious taxation schemes; precious metals spirited away; the appropriation of antiquities to the British Museum and other trophy rooms; the 19th century emergence of racist ideologies to justify colonialism; the 1884-85 carve-up of Africa into dysfunctional territories in a Berlin negotiating room; the construction of settler-colonial and extractive-colonial systems

3 In the case of the vast Johannesburg/London conglomerate Anglo American Corporation, the cut-off for saving workers in 2001 was 12%. The lowest-paid 88% of employees were more cheaply dismissed once unable to work, with replacements found amongst South Africa's 42% unemployed reserve army of labour, according to an internal study reported by the *Financial Times*. For more, see Bond, Patrick (2005).

4 One of the strongest recent overviews of African debt is Capps, G. (2005); see also Bond, P. (2006).

–of which apartheid, the German occupation of Namibia, the Portuguese colonies and King Leopold’s Belgian Congo were perhaps only the most blatant– often based upon tearing black migrant workers from rural areas (leaving women vastly increased responsibilities as a consequence); Cold War battlegrounds –proxies for US/USSR conflicts– filled with millions of corpses; the post-Cold War terrain of unipolar power; other wars catalysed by mineral searches and offshoot violence such as witnessed in blood diamonds and other precious metals and minerals such as coltan (the cellphone ingredient found in the eastern Democratic Republic of the Congo); poacher-stripped swathes of East, Central and Southern Africa now devoid of rhinos and elephants whose ivory became ornamental material or aphrodisiac in the Middle East and East Asia; societies used as guinea pigs in the latest corporate pharmaceutical test; and the list could continue.

As is also abundantly clear, Africa also suffers a systemic cultural and ideological impoverishment in the North. International mass media images of Africans were nearly uniformly negative during the recent period. It was from West Africa that the neoconservative, neo-Malthusian writer Robert Kaplan described for his frightened US audience a future defined in terms of ‘disease, overpopulation, unprovoked crime, scarcity of resources, refugee migrations, the increasing erosion of nation-states and international borders, and the empowerment of private armies, security firms, and international drug cartels’ (Kaplan, 1994: 46). As the ‘dark continent’, Africa has typically been painted with broad-brush strokes, as a place of heathen and uncivilized people, as savage and superstitious, as tribalistic and nepotistic. David Wiley has shown how western media coverage is crisis driven, based upon parachute journalism, amplified by an entertainment media which ‘perpetuates negative images of helpless primitives, happy-go-lucky buffoons, evil pagans. The media glorify colonialism/European intervention. Currently, Africa is represented as a place of endemic violence and brutal but ignorant dictators’. Add to this the ‘animalization of Africa via legion of nature shows on Africa that present Africa as being devoid of humans’, enhanced by an ‘advertising industry that has built and exploited (and thereby perpetuated) simplistic stereotypes of Africa’⁵. Thus it was disgusting but logical, perhaps, that African people were settled into a theme village at an Austrian zoo in June 2005, their huts placed next to monkey cages in scenes reminiscent of 19th century exhibitions. In an explanatory letter, zoo director Barbara Jantschke

5 <http://exploringafrica.matrix.msu.edu/curriculum/lm1/1/lm1_teachers.html>.

denied that this was 'a mistake' because 'I think the Augsburg zoo is exactly the right place to communicate an atmosphere of the exotic' (Hawley, 2005).

Ironically, the World Bank's ecological economists have conceded as much in their calculations of natural resources depletion: petroleum, other subsoil mineral assets, timber resources, nontimber forest resources, protected areas, cropland and pastureland. Indeed, the Bank calculates that much of Africa is poorer not wealthier the more its comparative advantage in resources is pursued. *Where is the Wealth of Nations?* makes several crucial adjustments to gross national income and savings accounts. By subtracting fixed capital depreciation, adding education spending, subtracting resource depletion and subtracting pollution damage, the Bank finds that some countries are vast losers via export processing.

The picture is not entirely negative, for there has been a slight upturn in the terms of trade for African countries thanks to higher commodity prices associated with East Asian demand. But this should not disguise the profoundly unequal and unfair system of export-led growth, which has impoverished Africans in many ways. As a result, according to Christian Aid, 'Trade liberalization has cost Sub-Saharan Africa \$272 billion over the past 20 years... Overall, local producers are selling less than they were before trade was liberalized'⁶ (Aid, 2005). Deconstructing African countries according to whether there was rapid or slow trade liberalization from 1987-99, Christian Aid found a close correlation between trade openness and worsening poverty. One reason was falling commodity prices during the 1980s-90s.

COMMODITY EXPORT DEPENDENCY AND FALLING TERMS OF TRADE

The most important myth of neoliberal economics is that production for export inexorably creates prosperity. In reality, 'unequal exchange' in trade –including the rising African trade deficit with South Africa– is another route for the extraction of superprofits from Africa. The continent's share of world trade declined over the past quarter century, but the volume of exports increased. 'Marginalization' of Africa occurred, hence, not because of insufficient integration, but because other areas of the world –especially East Asia– moved to the export of manufactured goods, while Africa's industrial potential declined thanks to excessive deregulation associated with structural adjustment.

Overall, primary exports of natural resources accounted for nearly 80% of African exports in 2000, compared to 31% for all developing

6 See also Kraev, E. (2005).

countries and 16% for the advanced capitalist economies. According to the UN Conference on Trade in Development, in 2003, a dozen African countries were dependent upon a single commodity for exports, including crude petroleum (Angola 92%, Congo 57%, Gabon 70%, Nigeria 96% and Equatorial Guinea 91%); copper (Zambia 52%); diamonds (Botswana 91%); coffee (Burundi 76%, Ethiopia 62%, Uganda 83%), tobacco (Malawi 59%) and uranium (Niger 59%) (Oxfam, 2005: 21). Excluding South Africa, the vast majority (63%) of Sub-Saharan exports in recent years have been petroleum-related, largely from Nigeria, Angola and other countries in the Gulf of Guinea. The next largest category of exports from the subcontinent (and not including South Africa) is food and live animals (17%) (UN Conference on Trade in Development, 2003: 250). The problems associated with primary product export dependence are not only high levels of price volatility and downward price trends for many natural resources. In addition, especially for minerals, production is highly capital-intensive, offers low incentives for educational investments, and provides a greater danger of intervention by parasitical rentiers (Cornia, 1999).

More than two-thirds of Africa's trade is with developed countries, although beginning in 1990, China's share rose from 2% to 9%, in the process attracting growing controversy over geopolitics (because from Sudan to Zimbabwe to Angola, Chinese loans and investments propped up corrupt regimes) and deindustrialization. The Chinese threat to African industry is profound, with Nigeria losing 350,000 jobs directly (and 1.5 million indirectly) due to Chinese competition from 2000-05. Lesotho's garment industry collapsed when the Africa Growth and Opportunity Act benefits evaporated in 2005 once China joined the WTO (Chiahemen, 2005).

But the main damage remains the long-term decline in primary product price trends. As Michael Barrett Brown explains: 'The value added in making up manufactured goods has been greatly increased compared with the raw material required; synthetics continue to replace natural products in textiles, shoes and rubber goods; and the elasticity of demand for agricultural products (the proportion of extra incomes spent on food and beverages) has been steadily falling'. Notwithstanding the 2002-05 price increases –especially oil, rubber and copper thanks to Chinese import demand– the value of coffee, tea and cotton exports many African countries rely upon continues to stagnate or fall. Falling prices for most cash crops pushed Africa's agricultural export value down from \$15 billion in 1987 to \$13 billion in 2000 notwithstanding greater volumes of exports⁷ (Barratt-Brown, 2004).

7 See also Barratt-Brown, M. and Tiffen, P. (1992).

Table 2
Commodity price declines, 1980-2001

Product, Unit	1980	1990	2001
Cafe (Robusta) cents/kg	411.70	118.20	63.30
Cocoa cents/kg	330.50	126.70	111.40
Groundnut oil dollars/ton	1090.10	963.70	709.20
Palm oil dollars/ton	740.90	289.90	297.80
Soya dollars/ton	376.00	246.80	204.20
Sugar cents/kg	80.17	27.67	19.90
Cotton cents/kg	261.70	181.90	110.30
Copper dollars/ton	2770.00	2661.00	1645.00
Lead cents/kg	115.00	81.10	49.60

Source: Touissant, E. (2005), *Your Money or Your Life*, Chicago, Haymarket Books, p. 157.

In historical terms, the prices of primary commodities (other than fuels) have risen and fallen according to a deeper rhythm. Exporters of primary commodities, for example, fared particularly badly when financiers were most powerful. The cycle for an exporting country typically begins with falling commodity prices, then leads to rising foreign debt, dramatic increases in interest rates, a desperate intensification of exports which lowers prices yet further, and bankruptcy. Using 1970 as a base index year of 100, from 1900 to 1915, the prices of commodities rose from 130 to 190, and then fell dramatically to 90 in 1919. From a low point of 85 in 1930, as the Great Depression began, the commodity price index rose mainly during World War II to 135, as demand for raw materials proved strong and shipping problems created supply-side problems. Prices fell during the subsequent globalization process until 1968 (to 95 on the index), but soared to 142 at the peak of a commodity boom in 1973 when oil and minerals—especially gold—temporarily soared. The subsequent fall in commodity prices took the index down steadily, well below 40 by the late 1990s (Leon and Soto, 1997: 350). In Ethiopia, to illustrate, coffee exports rose from 1992, with the volume of output doubling by 2003. But the export value fell from \$450 million to less than \$100 million during the same period (United Nations Development Programme, 2005:141).

Commodity prices were extremely volatile in key sectors affecting Africa. Gold rose from \$35/ounce in 1971 to \$850/ounce in 1981 but then crashed to as low as \$250 by the late 1990s. The 2002-05 minor

boom in some commodity prices reflected strong Chinese import demand and the East Asian recovery from the 1997-98 depression in four key countries; from a very low base in early 2002, the prices of agricultural products rose 80% and metals/minerals doubled. Perhaps most spectacularly, the rise of the oil price from \$11/barrel to \$70/barrel from 1998-2005 meant that price volatility did indeed assist a few countries. But the soaring price of energy came at the expense of most of Africa, which imports oil.

Supporters of the status quo argue that there are mitigating factors in the world trading system designed to offer Africa a safety net. But 'preferential access' that permits somewhat greater Northern imports from Africa represents only 1% of world trade volume. And the 'Special and Differential Treatment' (SDT) concessions grudgingly provided some Third World exports are typically hard-fought and minimal, as Tetteh Hormeku of the Africa Trade Network explains:

Countries at different stages of growth and development should not assume the same level of responsibilities in international agreements as these are unequal partners. But by end of the Uruguay Round the spirit of SDT was reduced to a narrower concept: developing countries had to essentially accept the same obligations as developed countries, and may be exempted from implementing some measures, as well as allowed different time scales. But almost all obligations would be adopted by them... [At Doha,] over 200 proposals were made relating first to strengthening SDT and second to resolving implementation issues. Since the Round has been launched, all discussions on SDT and implementation issues have made no progress, except on 22 issues which are widely described as of having little or no commercial value (Hormeku, 2005).

A related problem is the northern agricultural subsidy system, which is worth several hundred billion dollars a year, whether for domestic market stabilization (in an earlier era) or export promotion. Over-productive European, US and Japanese agro-industrial corporations producers find African markets in the form of dumped grains and foodstuffs. Rarely examined, however, are the differential impacts of subsidies, especially when associated with glutted global agricultural markets. This is a general problem associated with export-led growth, but is particularly acute in the farming sector because of uneven access to state subsidies, especially affecting export crops.

It is not only a matter of much lower national-scale productive potential in the Third World than would have been the case had liberalization not decimated many local industries, including domestic farming. In the process, rapid trade-related integration caused grow-

ing social inequality, as Branco Milanovic has reported (Milanovic, 2002). Those who benefited most include the import/export firms, transport/shipping companies, plantations and large-scale commercial farmers, the mining sector, financiers (who gain greater security than in the case of produce designed for the domestic market), consumers of imported goods, and politicians and bureaucrats who are tapped into the commercial/financial circuits.

Agricultural subsidies are merely one aspect of growing rural inequality. Farm subsidies today mainly reflect agro-corporate campaign contributions and the importance of rural voting blocs in advanced capitalist countries. (In the 1930s, the first generation of US farm subsidies instead reflected the dangers of agricultural overproduction to society and ecology, for the 'dust bowl' phenomenon in the Midwest emerged when many family farmers simply left their failing lands fallow after markets were glutted.)

The power of the agro-corporate lobby is substantial and getting stronger. The UN Development Programme found that agricultural subsidies had risen 15% between the late 1980s and 2004, from \$243 billion to \$279 billion (a figure Vandana Shiva considers a vast underestimate), with Japan (56%) relatively most subsidy-intensive in relation to the total value of agricultural production, compared to the EU (33%) and US (18%) (United Nations Development Programme, 2005:19).

Unlike earlier periods when farming was smaller-scale and atomized, advanced capitalist countries' agricultural subsidies today overwhelmingly benefit large agro-corporate producers. Subsidies in the EU's fifteen major countries are even more unequally distributed than the US, with beneficiaries in Britain including Queen Elizabeth II (\$1.31 million), Prince Charles (\$480,000) and Britain's richest man, the Duke of Westminster (\$1.13 million)⁸ (Sharma, 2005a). Studies of the Gini coefficients of northern agriculture subsidy recipients, as reported by the UNDP, confirm that large farming corporations benefit far more than do small farmers. In 2001, the EU 15's Gini coefficient was 78 and the US coefficient was 67, both far higher than income distribution in the world's most unequal countries (United Nations Development Programme, 2005: 130). Were political power relations to change, a massive redirection of subsidies to small, lower-income,

8 Sharma argues that in response: "Developing countries should ask for: agricultural subsidies to be classified under two categories: one which benefits small farmers and the remaining which goes to agri-business companies and the big farmers/landowners; and since less than 20% of the \$1 billion farm subsidy being doled out every day genuinely benefit small farmers, the remaining 80% subsidies need to be outright scrapped before proceeding any further on agriculture negotiations."

family farmers in the North would be more equitable and could have the effect of moving agricultural production towards more organic (and less petroleum-intensive) farming.

A detailed debate regularly occurs over whether subsidies are 'trade-distorting'. If they represent export subsidies or price supports, these subsidies belong in what the WTO terms an 'Amber Box', targeted for elimination. Export subsidies of \$7.5 billion in 1995 were reduced, as a result, to \$3 billion by 2001. Formerly trade-distorting subsidies were reformed by the EU, with the new aim of limiting production of crops (farmers are paid to simply leave land fallow), and are hence 'Green Box': not subject to cuts. The US government proposed that the large counter-cyclical payments it makes to US cotton producers when the price declines should not be considered amber, even though the WTO itself agreed with Brazilian complaints that the subsidies still distort trade by increasing US output and lowering world prices. Generally, the complexity associated with the subsidy regimes reflects Northern capacity to maintain their subsidies but continually dress them up in new language (Sharma, 2005b).

What impact would the removal of northern agricultural subsidies have in Africa? Explicit agro-export subsidies, which account for less than 1% of the total and are mainly provided by the EU, will finally cease in 2013, thanks to concessions at the Hong Kong WTO summit. (Implicit EU export subsidies worth 55 billion euros will continue, however.) This reform aside, the most important debate is over whether substantive reductions would genuinely benefit African peasants.

One problem is that power relations prevailing in the world agricultural markets allow huge cartels to handle shipping and distribution, and they usually gain the first round of benefits when prices change. A second problem is that local land ownership patterns typically emphasise plantation-based export agriculture, with the danger that further cash crop incentives will crowd out land used for food cropping by peasants. No reliable studies exist to make definitive statements. There are, indeed, African heads of state in food-importing countries who advocate continuing EU agricultural subsidies for a third reason, because lower crop prices reduces their own costs of feeding their citizenry.

In sum, two crucial questions associated with subsidies and agricultural exports are typically elided by neoliberal economists and other pro-trade campaigners: which forces in Northern societies benefit from subsidies that promote export-orientation, in both the short- and long-term?; and which forces in Southern societies would win and lose in the event exports are lifted? Furthermore, the

crucial strategic question is whether self-reliant development strategies –which were the necessary (if insufficient) condition for most industrialization in the past– can be applied if low-income exporting countries remain mired in the commodity trap. The same points must be raised again below with respect to Africa’s mineral exports, where depletion of nonrenewable resources drains the wealth of future generations.

But a final reflection of trade-related power relations was also unveiled in Hong Kong. For Walden Bello, the most disturbing political development was that India and Brazil structurally shifted their location from an alliance with 110 Third World countries, to the core of the ‘Five Interested Parties’ (joining the US, EU and Australia) which cut the final deal:

In the end, the developing country governments caved in, many of them motivated solely by the fear of getting saddled with the blame for the collapse of the organization. Even Cuba and Venezuela confined themselves to registering only ‘reservations’ with the services text during the closing session of the ministerial... The main gain for Brazil and India lay not in the impact of the agreement on their economies but in the affirmation of their new role as power brokers within the WTO⁹ (Bello, 2005).

INVESTMENT, PRODUCTION AND EXPLOITATION

Africa, meanwhile, remains disempowered on fronts ranging from trade to direct investment. Walter Rodney described foreign direct investment in stark terms:

Under colonialism the ownership was complete and backed by military domination. Today, in many African countries the foreign ownership is still present, although the armies and flags of foreign powers have been removed. So long as foreigners own land, mines, factories, banks, insurance companies, means of transportation, newspapers, power stations, etc. then for so long will the wealth of Africa flow outwards into the hands of those elements. In other words, in the absence of direct political control, foreign investment ensures that the natural resources and the labour of Africa produce economic value which is lost to the continent (Rodney, 1981).

In recent years, Africa has not been overwhelmed by interest from foreign corporate suitors. During the early 1970s, roughly a third of all FDI

9 Bello particularly blames Brazilian foreign minister Celso Amorim and Indian commerce minister Kamal Nath.

to the Third World went to Sub-Saharan African countries, especially apartheid South Africa. By the 1990s, that statistic had dropped to 5%. Aside from oil field exploitation, the only other substantive foreign investments over the last decade were in South Africa, for the partial privatization of the state telecommunications agency and for the expansion of automotive-sector branch plant activity within global assembly lines. These inflows were by far offset by South Africa's own outflows of foreign direct investment, in the forms of relocation of the largest corporations' financial headquarters to London, which in turn distorted the Africa FDI data, not to mention the repatriation of dividends/profits, payments of patent/royalty fees to transnational corporations.

One of the most careful analysts of foreign corporate domination of African economies, UN Research Institute for Social Development director Thandika Mkandawire, recently studied African economies' 'maladjustment' and concluded, 'Little FDI has gone into the manufacturing industry. As for investment in mining, it is not drawn to African countries by macroeconomic policy changes, as is often suggested, but by the prospects of better world prices, changes in attitudes towards national ownership and sector specific incentives'. Moreover, 14% of FDI was 'driven by acquisitions facilitated by the increased pace of privatization to buy up existing plants that are being sold, usually under "fire sale" conditions'. What little new manufacturing investment occurred was typically 'for expansion of existing capacities, especially in industries enjoying natural monopolies (e.g. beverages, cement, furniture). Such expansion may have been stimulated by the spurt of growth that caused much euphoria and that is now fading away' (Mkandawire, 2005:6). According to Mkandawire:

It is widely recognized that direct investment is preferable to portfolio investment, and foreign investment in 'green field' investments is preferable to acquisitions. The predominance of these [portfolio and acquisition] types of capital inflows should be cause for concern. However, in their desperate efforts to attract foreign investment, African governments have simply ceased dealing with these risks or suggesting that they may have a preference for one type of foreign investment over all others. Finally, such investment is likely to taper off within a short span of time, as already seems to be the case in a number of African countries.

Thus, for Ghana, hailed as a 'success story' by the Bretton Woods Institutions, FDI, which peaked in the mid-1980s at over \$200 million annually –mainly due to privatization– was rapidly reversed to produce a negative outflow. It should be noted, in passing, that rates of return of direct investments have generally been much higher in Africa than in other developing regions. This, however, has not made Africa a favourite among investors, largely because of considerations of the intangible 'risk factor' nurtured by the tendency to treat the contingent

as homogenous and a large dose of ignorance about individual African countries. There is considerable evidence that shows that Africa is systematically rated as more risky than is warranted by the underlying economic characteristics” (Mkandawire, 2005:7).

The critique of foreign investors in Africa must now extend beyond the EU, US and Japan, to China. For example, the Chinese National Petroleum Corporation (CNPC) and two other large Chinese oil firms are active in seventeen African countries. One is Sudan where \$2 billion of oil investments are underway notwithstanding the Darfur genocide, responsible already for of 5% of China’s import requirements, along with Chinese-financed development of a homegrown Sudanese military capacity. (Arms sales to Robert Mugabe are also dubious.) As Ben Schiller reports,

Concerns have been raised over the environmental impact of various Chinese-run mining operations in Africa, including copper mines in Zambia and Congo, and titanium sands projects in ecologically sensitive parts of Mozambique, Kenya, Tanzania, and Madagascar.

Moreover, China is a major importer of illegal timber from forests in Indonesia, Cameroon, Congo, and Equatorial Guinea. Though accurate figures are hard to access, www.globaltimber.org.uk says that up to 50% of all timber imported to China in 2004 was illegal. Chinese businesses have also been implicated in ivory smuggling, notably in Sudan and Zimbabwe. According to Care for the Wild International, Chinese companies buy up to 75% of Sudan’s ivory.

In its rush to expand, development experts say China is reinvigorating an older, crude style of development, re-establishing an era of ‘white elephants’ and ‘prestige projects’ with little benefit to local people. In Ethiopia, the Chinese state-owned Jiangxi International built \$4 million worth of new housing, after a flood left hundreds destitute. But instead of accommodating the homeless, the blocks ended up being used by military officials. A Jiangxi manager later told the *Wall Street Journal*: “It was a political task for us and so long as Ethiopia officials are happy, our goal is fulfilled” (Schiller, 2005).

Given that mining houses have been central to looting Africa for at least a century and a half, it is fitting to next consider the damage done by depletion of minerals and other non-renewable natural resources.

FDI AND RESOURCE DEPLETION

In the most brazen case, the oil sector demonstrates how profit and dividend outflows, often lubricated by corruption, have had extremely negative consequences. As demonstrated by the Open Society-backed campaign, ‘Publish what you Pay’, elites in Africa’s oil producing countries –Angola, Chad, Congo, Equatorial Guinea, Gabon, Nigeria and

Sudan– are amongst the world’s least transparent¹⁰. In Nigeria, demands by the Ogoni people relate not only to the massive destruction of their Delta habitat, but also to the looting of their natural wealth by Big Oil. According to Sam Olukoya,

Reparations is a crucial issue in the struggle for environmental justice in Nigeria. Many of the ethnic groups in the Niger Delta have drawn up various demands. A key document is the Ogoni Bill of Rights which seeks reparations from Shell for environmental pollution, devastation and ecological degradation of the Ogoni area. Shell’s abuses in Ogoniland were made infamous by the late playwright and activist Ken Saro-Wiwa, who was executed by the Nigerian government (Olukoya, 2001).

In all these respects, diverse forces in society have moved away from considering oil merely a matter of private property, to be negotiated between corporations and governments, as was the case during much of the 20th century. Instead, these forces now treat oil as part of a general ‘commons’ of a national society’s natural capital. George Caffentzis explains:

There are three levels of claims to petroleum as common property, correlating with three kinds of allied communities that are now taking shape, for there is no common property without a community that regulates its use:

- first, some local communities most directly affected by the extraction of petroleum claim to own and regulate the petroleum under its territory as a commons;
- second, Islamic economists claim for the Islamic community of believers, from Morocco to Indonesia, and its representative, the 21st century Caliphate in formation, ownership of and the right to regulate the huge petroleum fields beneath their vast territory;
- third, UN officials claim for the ‘coming global community’ the right to regulate the so-called global commons: air, water, land, minerals (including petroleum) and ‘nous’ (knowledge and information). This imagined global community is to be represented by a dizzying array of ‘angels’ that make up the UN system, from NGO activists to UN environmentalist bureaucrats to World Bank ‘green’ advisors” (Caffentzis, 2004).

From a September 2005 conference in Johannesburg organized by the South African NGO groundWork, delegates petitioned the World Petroleum Congress:

¹⁰ <<http://www.opensociety.org>>

At every point in the fossil fuel production chain where your members 'add value' and make profit, ordinary people, workers and their environments are assaulted and impoverished. Where oil is drilled, pumped, processed and used, in Africa as elsewhere, ecological systems have been trashed, peoples' livelihoods have been destroyed and their democratic aspirations and their rights and cultures trampled... Your energy future is modeled on the interests of over-consuming, energy-intensive, fossil-fuel-burning wealthy classes whose reckless and selfish lifestyles not only impoverish others but threaten the global environment, imposing on all of us the chaos and uncertainty of climate change and the violence and destruction of war. Another energy future is necessary: yours has failed!¹¹.

In a remarkable essay, 'Seeing like an oil company', anthropologist James Ferguson argues that 'capital "hops" over "unusable Africa", alighting only in mineral-rich enclaves that are starkly disconnected from their national societies. The result is not the formation of standardized national grids, but the emergence of huge areas of the continent that are effectively "off the grid". In the process, there emerges 'a frightening sort of political-economic model for regions that combine mineral wealth with political intractability', ranging from African oil zones to occupied Iraq. The model includes protection of capital by 'private military companies' (in Baghdad, Blackwater, Erinys and Global Risk Strategies), and protection of the 'Big Man' leader (Paul Bremer, John Negroponte) 'not by his own national army but, instead, by hired guns' (Ferguson, 2005: 381). The bottom line is enhanced profit for international capital and despotism for the citizenry.

Of interest, though, is that in the wake of higher consciousness regarding full environmental accounting, some of the costs of this model are now being measured at even the World Bank. Along with this we are entering a potentially fruitful period in which the depletion of natural resources plus associated negative externalities –such as the social devastation caused by mining operations– can now begin to be taken seriously as a way of envisioning a global commons. That entails at least a rough accounting of the costs associated with tearing resources from the ground, forests and fisheries, even as we continue to recognize that many aspects of valuation –human life's worth, indigenous people's traditions and culture, aesthetics of the natural environment– are impossible to quantify.

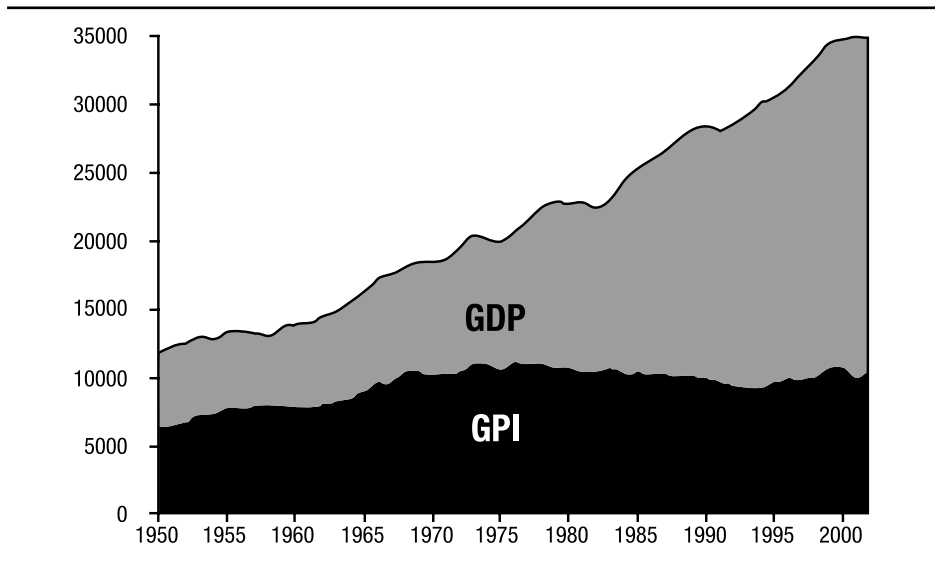
ACCOUNTING FOR NATURE

Because of the legacy of environmental economists such as Herman Daly, even the World Bank has begun to address the question of re-

11 <<http://www.groundwork.org.za>>.

source depletion, in *Where is the Wealth of Nations?*, using the methodology of correcting bias in GDP wealth account surprisingly, this is nowhere near as expansive as parallel efforts by groups such as San Francisco-based Redefining Progress¹². There, statisticians subtract from GDP the cost of crime and family breakdown; add household and volunteer work; correct for income distribution (rewarding equality); subtract resource depletion; subtract pollution; subtract long-term environmental damage (climate change, nuclear waste generation); add opportunities for increased leisure time; factor in lifespan of consumer durables and public infrastructure; and subtract vulnerability upon foreign assets. Using this approach and accounting for natural resource depletion, pollution and the other factors that, in the aggregate, comprise the onset of the era marked by neoliberalism, globalisation and the ecological crisis, global welfare began declining in absolute terms during the mid-1970s. Nevertheless, the Bank's tentative approach is at least a step forward in recognizing that extractive investments may not contribute to net welfare, and indeed may cause national savings and wealth to actually shrink, along with their better known qualitative manifestations.

Figure 1
Global GDP versus a genuine progress indicator, 1950-2003



Source: www.redefiningprogress.org

¹² <<http://www.redefiningprogress.org>>.

The Bank's first-cut method subtracts from the existing rate of savings factors such as fixed capital depreciation, depletion of natural resources and pollution, but then adds investments in education (defined as annual expenditure). The result, in most African countries dependent upon primary products, is a net negative rate of national savings to Gross National Income (GNI). Notwithstanding some problems, the Bank's methodology at least indicates some of the trends associated with raw materials extraction. In making estimates about the decline in a country's wealth due to energy, mineral or forest-related depletion, the World Bank adopts a minimalist definition based upon international pricing (not potential future values when scarcity becomes a more crucial factor, especially in the oil industry). Moreover, the Bank does not fully calculate damages done to the local environment, to workers' health/safety, and especially to women in communities around mines. And the Bank's use of average –not marginal– cost resource rents also underestimates the depletion costs. In particular, the attempt to generate a 'genuine savings' calculation requires adjusting net national savings to account for resource depletion. The Bank suggests the following steps:

From gross national saving the consumption of fixed capital is subtracted to give the traditional indicator of saving: net national savings. The value of damages from pollutants is subtracted. The pollutants carbon dioxide and particulate matter are included. The value of natural resource depletion is subtracted. Energy, metals and mineral and net forest depletion are included. Current operating expenditures on education are added to net national saving to adjust for investments in human capital (World Bank, 2005a: 39).

Naturally, given oil extraction, the Middle East region (including North Africa) has the world's most serious problem of net negative gross national income and savings under this methodology. But Sub-Saharan Africa is second worst, and for several years during the early 1990s witnessed net *negative* GNI for the continent once extraction of natural resources was factored in. Indeed, for every percentage point increase in a country's extractive-resource dependency, that country's potential GDP declines by 9% (as against the real GDP recorded), according to the Bank (World Bank, 2005a: 55). African countries with the combined highest resource dependence and lowest capital accumulation included Nigeria, Zambia, Mauritania, Gabon, Congo, Algeria and South Africa. In comparing the *potential* for capital accumulation –i.e., were resource rents not simply extracted (and exported) and resources depleted– on the one hand and, on the other, the *actual* measure of capital accumulation, Bank researchers discovered that,

In many cases the differences are huge. Nigeria, a major oil exporter, could have had a year 2000 stock of produced capital five times higher than the actual stock. Moreover, if these investments had taken place, oil would play a much smaller role in the Nigerian economy today, with likely beneficial impacts on policies affecting other sectors of the economy (World Bank, 2005a: 55).

A more nuanced breakdown of a country's estimated 'tangible wealth' is required to capture not just obvious oil-related depletion and rent outflows, but also other subsoil assets, timber resources, nontimber forest resources, protected areas, cropland and pastureland. The 'produced capital' normally captured in GDP accounting is added to the tangible wealth. In the case of Ghana, that amounted to \$2,022 per capita in 2000. The same year, the Gross National Saving of Ghana was \$40 per capita and education spending was \$7. These figures require downward adjustment to account for the consumption of fixed capital (\$19), as well as the depletion of wealth in the form of stored energy (\$0), minerals (\$4) and net forest assets (\$8). In Ghana, the adjusted net saving was \$16 per capita in 2000. But given population growth of 1.7%, the country's wealth actually shrunk by \$18 per capita in 2000 (World Bank, 2005a: 64-65).

Table 3

Adjustment to Ghana's 2000 savings rate based upon tangible wealth and resource depletion (per capita \$)

Tangible wealth	Adjusted net saving
Subsoil assets \$65	Gross National Saving \$40
Timber resources \$290	Education expenditure \$7
Nontimber forest resources \$76	Consumption fixed capital \$-19
Protected areas \$7	Energy depletion \$0
Cropland \$855	Mineral depletion \$-4
Pastureland \$43	Net forest depletion \$-8
Produced capital \$686	
Total tangible wealth \$2022	Adjusted net saving \$16
Population growth 1.7%	Change in wealth per capita \$-18

Source: World Bank, *Where is the Wealth of Nations?*, pp.64-65.

How much of this exploitation is based on transnational capital's extractive power? In the case of Ghana, \$12 of the \$18 decline in 2000 could be

attributed to minerals and forest-related depletions, a large proportion of which now leaves Ghana (World Bank, 2005a: 64-65). The largest indigenous (and black-owned) mining firm in Africa, Ashanti, was recently bought by AngloGold, so it is safe to assume than an increasing amount of Ghana's wealth flows out of the country, leaving net negative per capita tangible wealth. Other mining houses active in Africa which once had their roots here –Lonrho, Anglo, DeBeers, Gencor/Billiton– are also now based off-shore.

It is logical to assume that an increased drive by London, New York and Sydney shareholders for profits results in accumulation of capital within Africa being systematically stymied. The central question is whether any of the financial capital that returns to Africa –by way of royalties on minerals or profits to local shareholders (still significant in the case of South Africa)– is reinvested, or merely becomes the source of further capital flight.

Ghana was an interesting example given that it has often played the role of World Bank poster child country. Other African countries whose economies are primary product dependent fare much worse, according to the Bank methodology. Gabon's citizens lost \$2,241 each in 2000, as oil companies rapidly depleted the country's tangible wealth. The Republic of the Congo (-\$727), Nigeria (-\$210), Cameroon (-\$152), Mauritania (-\$147) and Cote d'Ivoire (-\$100) are other African countries whose people lost more than \$100 in tangible national wealth each in 2000 alone. (Angola would rank high amongst these, were data available for the Bank's analysis.) A few countries did benefit, according to the tangible wealth measure, including the Seychelles (+\$904), Botswana (+\$814) and Namibia (+\$140), but the majority of African countries saw their wealth depleted (World Bank, 2005a: 66).

Even Africa's largest economy, South Africa, which from the early 1980s has been far less reliant upon minerals extraction, recorded a \$2 drop in per capita wealth in 2000 using this methodology. According to the World Bank, the natural wealth of \$3,400/person in South Africa included subsoil assets (worth \$1,118 per person)¹³; timber (\$310); non-timber forest resources (\$46); protected areas (\$51); cropland (\$1,238); pastureland (\$637). This sum can be compared to the value of produced capital (plant and equipment) and urban land (together worth \$7,270 per person in 2000). Hence even in Africa's most industrialized economy, the estimated value of natu-

13 According to a different study by the United Nations Development Programme, the value of minerals in the soil fell from \$112 billion in 1960 to \$55 billion in 2000. See United Nations Development Programme (2004).

ral wealth is nearly half of the measurable value of plant, equipment and urban land¹⁴.

In part, minerals depletion and associated pollution costs are a function of expanded foreign direct investment. Even in South Africa, with a 150-year old organic mining-based bourgeoisie, mineral depletion today disproportionately benefits overseas mining houses (especially given that some of the largest Johannesburg firms relisted their primary share residences to London after 1994). In addition, CO₂ emissions plus a great deal of other pollution (especially SO₂) are largely the result of energy large multinational corporations (Mittal Steel, BHP Billiton and the Anglo group). Any assessment of FDI, especially in oil and resource rich countries, must henceforth take into account its contribution to the net negative impact on national wealth, including the depletion and degradation of the resource base. Ironically, given the source of leadership at the World Bank (Paul Wolfowitz of the US petromilitary complex), the Bank's new accounting of genuine savings is a helpful innovation. Taking the methodology forward in order to correct biases, and rigorously estimating an Africa-wide extraction measure in order to better account for the way extractive FDI generates net negative welfare/savings, still remain as important exercises.

There are many other modes of surplus and resource extraction through FDI, involving swindling. For example, corporate failure to pay taxes and state failure to collect them is a point stressed by Lawrence Cockcroft of Transparency International:

Most African countries operate some form of tax break for new investors, with varying degrees of generosity. In fact such incentive schemes are frequently deceptive in that the real deal is being done in spite of them and alongside them, with a key cabinet minister or official coming to an alternative arrangement which may well guarantee an offshore payment for the individual in question as well as a 'tax holiday' for the company concerned (Cockcroft, 2001: 2).

14 Given the constant depletion of this natural capital, South Africa's official gross national savings rate of 15.7% of GDI therefore should be adjusted downwards. By subtracting consumption of fixed capital at 13.3%, the net national savings is actually 2.4%, added to which should be education expenditure (amongst the world's highest) at 7.5%. Then subtract mineral depletion of 1%; forest depletion of 0.3%; 0.2% pollution damage (limited to 'particulate matter', a small part of South Africa's waste problem); and CO₂ emissions worth 1.6% of GDI (a serious undervaluation). In total, the actual 'genuine savings' of South Africa is reduced to just 6.9% of national income. (World Bank, 2005a: 179).

GLOBALIZATION AND THE WASHINGTON CONSENSUS

Table 4
African countries' adjusted national wealth and 'savings gaps', 2000

	Income per capita (\$)	Population growth rate (%)	Adjusted net saving per capita (\$)	Change in wealth per capita (\$)
Benin	360	2.6	14	-42
Botswana	2925	1.7	1021	814
Burkina Faso	230	2.5	15	-36
Burundi	97	1.9	-10	-37
Cameroon	548	2.2	-8	-152
Cape Verde	1195	2.7	43	-81
Chad	174	3.1	-8	-74
Comoros	367	2.5	-17	-73
Rep of Congo	660	3.2	-227	-727
Côte d'Ivoire	625	2.3	-5	-100
Ethiopia	101	2.4	-4	-27
Gabon	3370	2.3	-1183	-2241
The Gambia	305	3.4	-5	-45
Ghana	255	1.7	16	-18
Kenya	343	2.3	40	-11
Madagascar	245	3.1	9	-56
Malawi	162	2.1	-2	-29
Mali	221	2.4	20	-47
Mauritania	382	2.9	-30	-147
Mauritius	3697	1.1	645	514
Mozambique	195	2.2	15	-20
Namibia	1820	3.2	392	140
Niger	166	3.3	-10	-83
Nigeria	297	2.4	-97	-210
Rwanda	233	2.9	14	-60
Senegal	449	2.6	31	-27
Seychelles	7089	0.9	1162	904
South Africa	2837	2.5	246	-2
Swaziland	1375	2.5	129	8
Togo	285	4.0	-20	-88
Zambia	312	2.0	-13	-63
Zimbabwe	550	2.0	53	-4

Source: World Bank, *Where is the Wealth of Nations?*, p.66.

Official statistics have never properly picked up the durable problem of transfer pricing, whereby foreign investors misinvoice inputs drawn from abroad. Companies cheat Third World countries on tax revenues by artificially inflating their imported input prices so as to claim lower net income. It is only possible to guess the vast scale of the problem on the basis of case studies. The Oxford Institute of Energy Studies estimated that in 1994, 14% of the total value of exported oil 'was not accounted for in national trade figures as a result of various forms of transfer pricing and smuggling' (Cockcroft, 2001: 2). According to a 1999 United Nations Conference on Trade and Development survey on income shifting as part of transfer pricing, 'Of the developing countries with sufficient evidence to make an assessment, 61% estimated that their own national transnational corporations (TNCs) were engaging in income shifting, and 70% deemed it a significant problem. The income-shifting behaviour of foreign-based TNCs was also appraised. 84% of the developing countries felt that the affiliates they hosted shifted income to their parent companies to avoid tax liabilities, and 87% viewed the problem as significant' (UN Conference on Trade and Development, 1999: 167).

Similarly, another kind of corporate financial transfer aimed at exploiting weak African countries is the fee that headquarters charge for patent and copyright fees on technology agreements. Such payments, according to Yash Tandon, are augmented by management and consultancy fees, as well as other Northern corporate support mechanisms that drain the Third World. For the year 2000, Tandon listed export revenue denied the South because of northern protectionism of more than \$30 billion for non-agricultural products¹⁵.

PRODUCTION, TRANSPORT AND THE ECOLOGICAL DEBT

Most of the systems of unequal exchange have been identified (aside from labour which is considered below) In an indirect manner, such that victims are not aware of the process, another crucial outlet for Northern investors to exploit Africa is in their consumption of the global commons, particularly the earth's clean air. During the early 1990s, the idea of the North's ecological debt to the South began gaining currency in Latin America thanks to NGOs, environmentalists and politicians (including Fidel Castro of Cuba and Virgilio Barco of Colombia). According to Joan Martinez-Alier,

The notion of an ecological debt is not particularly radical. Think of the environmental liabilities incurred by firms (under the United

¹⁵ <<http://www.globalpolicy.org/socecon/develop/devthry/well-being/2000/tandon.htm>>.

States Superfund legislation), or of the engineering field called 'restoration ecology', or the proposals by the Swedish government in the early 1990s to calculate the country's environmental debt. Ecologically unequal exchange is one of the reasons for the claim of the Ecological Debt. The second reason for this claim is the disproportionate use of Environmental Space by the rich countries¹⁶ (Martinez-Alier, 2003).

In the first category, Martinez-Alier lists:

- Unpaid costs of reproduction or maintenance or sustainable management of the renewable resources that have been exported;
- actualized costs of the future lack of availability of destroyed natural resources;
- compensation for, or the costs of reparation (unpaid) of the local damages produced by exports (for example, the sulphur dioxide of copper smelters, the mine tailings, the harms to health from flower exports, the pollution of water by mining), or the actualized value of irreversible damage;
- (unpaid) amount corresponding to the commercial use of information and knowledge on genetic resources, when they have been appropriated gratis ('biopiracy'). For agricultural genetic resources, the basis for such a claim already exists under the FAO's Farmers' Rights.

In the second, he cites 'lack of payment for environmental services or for the disproportionate use of Environmental Space':

- (unpaid) reparation costs or compensation for the impacts caused by imports of solid or liquid toxic waste;
- (unpaid) costs of free disposal of gas residues (carbon dioxide, CFCs, etc), assuming equal rights to sinks and reservoirs.

16 Martinez-Alier elaborates with examples of ecological debt that are never factored into standard trade and investment regimes: 'nutrients in exports including virtual water... the oil and minerals no longer available, the biodiversity destroyed. This is a difficult figure to compute, for several reasons. Figures on the reserves, estimation of the technological obsolescence because of substitution, and a decision on the rate of discount are needed in the case of minerals or oil. For biodiversity, knowledge of what is being destroyed would be needed.' Some of these cases are considered in the discussion earlier concerning depletion of natural capital. See also <<http://www.deudaecologica.org>>.

These aspects of ecological debt defy easy measurement. Each part of the ecological balance sheet is highly contested, and information is imperfect. As Martinez-Alier shows in other work, tropical rainforests used for wood exports have an extraordinary past we will never know and ongoing biodiversity whose destruction we cannot begin to value. However, he acknowledges, 'although it is not possible to make an exact accounting, it is necessary to establish the principal categories [of ecological debt] and certain orders of magnitude in order to stimulate discussion' (Martinez-Alier, 1998).

The sums involved are potentially vast. Vandana Shiva and Tandon estimate that biopiracy of 'wild seed varieties have contributed some \$66 billion annually to the US economy'¹⁷. Moreover, in the case of CO₂ emissions, according to Martinez-Alier,

Jyoti Parikh (a member of the UN International Panel on Climate Change) [argues that] if we take the present human-made emissions of carbon, the average is about one tonne per person per year. Industrialized countries produce three-fourths of these emissions, instead of the one-fourth that would correspond to them on the basis of population. The difference is 50% of total emissions, some 3000 million tons. Here the increasing marginal cost of reduction is contemplated: the first 1000 million tons could be reduced at a cost of, say, \$15 per ton, but then the cost increases very much. Let us take an average of \$25: then a total annual subsidy of \$75 billion is forthcoming from South to North¹⁸.

Excess use of the planet's CO₂ absorption capacity is merely one of the many ways that the South is being exploited by the North on the ecological front. Africans are most exploited in this regard because non-industrialized economics have not begun to utilize more than a small fraction of what should be due under any fair framework of global resource allocation. The amounts involved would easily cover debt repayments.

A final way in which Africa's wealth is depleted is via skilled labour migration. This problem has become important, even if it is slightly mitigated by the inflow of migrant remittance payments to families at home. Approximately 20,000 skilled workers leave Africa each year. The World Bank's estimate of the share of Africa's skilled workers with a tertiary education who emigrate is more than 15%, higher than any other region. It is true that remittances from both skilled and unskilled labour flow back to Africa as a result, and in some cases represent an important contribution to GDP. But as the World Bank concedes,

17 <<http://www.globalpolicy.org/soecon/develop/devthry/well-being/2000/tandon.htm>>.

18 Martinez-Alier cites Parikh, J. K. (1995).

there are extremely high transaction costs (sometimes 20%) imposed upon the small sums that are transferred by migrants. For this reason, a great deal of migration-related inflows to Africa have become informal in nature, via black market systems, and in turn, once the flows reach their home destination, further problems often emerge, according to Sarah Bracking:

While money sent from the 'other side' has a beneficial effect on close kin, remittances can also undermine the purchasing power of those households without migrating members. This is in part a result of asset price inflation, and in part due to the inflationary effects of parallel currency markets. The situation for those excluded from benefiting from foreign currency inputs is aggravated by chronic scarcity in the availability of consumables" (Bracking, 2003: 633).

The progressive position on migration has always been to maintain support for the 'globalization of people' (while opposing the 'globalization of capital') and in the process to oppose border controls and arduous immigration restrictions, as well as all forms of xenophobia. In October 2005, North Africans were expelled from the Moroccan-Spanish border at Granada by lethal force, and the supposedly progressive Zapatero regime announced it would build the equivalent of Israel's notorious apartheid wall at the border. It was, according to Slavoj Žižek, just another symptom of Fortress Europe:

A couple of years ago, an ominous decision of the EU passed almost unnoticed: a plan to establish an all-European border police force to secure the isolation of the Union territory, so as to prevent the influx of the immigrants. *This* is the truth of globalization: the construction of *new* walls safeguarding the prosperous Europe from a flood of immigrants...

The segregation of the people is the reality of economic globalization. This new racism of the developed world is in a way much more brutal than the previous one. Its implicit legitimization is neither naturalist (the 'natural' superiority of the developed West) nor culturalist (we in the West also want to preserve our cultural identity). Rather, it's an unabashed economic egotism - the fundamental divide is the one between those included into the sphere of (relative) economic prosperity and those excluded from it¹⁹ (Žižek, 2005).

19 Žižek continues, 'It is thus becoming clear that the solution is not "tear down the walls and let them all in," the easy, empty demand often put forth by soft-hearted liberal "radicals." Rather, the real solution is to tear down the true wall, not the police one, but the social-economic one: To change society so that people will no longer desperately try to escape their own world.'

According to Yash Tandon and the UN Development Programme, there is a substantial 'loss of revenue on account of blockage on the free movement of people', which they estimated to amount to at least \$25 billion annually during the 1980s. But setting such numbers aside, in migration and many other forms of North-South power, it is also important to recognize an important basis for superexploitation within patriarchal power relations. In many (though not all) cases, women face such disempowering conditions across Africa that political-economic and human-environmental systems permit the processes discussed above –debt/finance, trade, investment and labour migration– to maintain inordinately high rates of exploitation.

CONCLUSION: FROM LOOTING TO LIBERATION

The looting of Africa dates back many centuries, to the point at which value transfers began via appropriation of slave labour, antiquities, precious metals and raw materials. Unfair terms of trade were soon amplified by colonial and neocolonial relations. These processes often amounted to a kind of 'primitive accumulation', by which capital of Northern countries grew by virtue of looting Africa. This was not a once-off set of problems, solved by the 1950s-90s independence struggles. In recent decades, wealth extraction through imperialist relations has intensified, and some of the same kinds of primitive looting tactics are now once again evident. Moreover, key causes of Africa's underdevelopment since the early 1980s can also be identified within the framework of *neoliberal* (free market) policies adopted nearly universally across the continent and indeed the world, in part thanks to the emergence of local allies of the North within African states.

The mainstream impression –e.g., Tony Blair's Africa Commission– is mistaken when citing what appears as a vast inflow of aid, for more than 60% –so-called 'phantom aid'– is redirected backwards to the donors or otherwise misses the mark in various ways. Instead of a sustainable level of debt service payments, as claimed by those supporting the elites' limited debt relief schemes, Africa's net financial accounts went negative during the 1990s. And although remittances from the African Diaspora now fund a limited amount of capital accumulation, capital flight is far greater. At more than \$10 billion/year since the early 1970s, collectively, the citizens of Nigeria, the Ivory Coast, the DRC, Angola and Zambia have been especially vulnerable to the overseas drain of their national wealth. In addition to the lifting of exchange controls, a major factor during the late 1990s was financial deregulation. In South Africa, for example, financial liberalization included the relisting of the

primary share-issuing residence of the largest South African firms: from Johannesburg to London.

Likewise, trade liberalization has, according to Christian Aid, cost Sub-Saharan Africa \$272 billion since the early 1980s. Trade is especially difficult to rely upon for growth, given that agricultural subsidies accruing to Northern farmers rose from the late 1980s to 2004 by 15%, to \$279 billion, mainly benefiting large agro-corporate producers. Flows of people—a veritable brain drain—have also been formidable, but the value of wealth lost to the process is incalculable, given that more than 15% of Africa's best-educated professionals now live abroad.

Non-financial investment flows are driven less by policy—although liberalization has also been important—and more by accumulation opportunities. Foreign Direct Investment to Sub-Saharan began rising in the late 1990s after two decades of stagnation. But the vast bulk of investments were accounted for in two major processes: South African capital's changed domicile, and resurgent oil investments (especially in Angola and Nigeria).

In the latter cases, a report by the World Bank acknowledges stagnant and net negative 'genuine savings' in countries with high resource dependence and low capital accumulation. Moreover, much of Africa—including South Africa—has been victimized by privatization-related foreign investment. Transparency International blames part of the 'disappointment in many African countries' upon corruption. Other forms of corruption occur through tax fraud and transfer pricing. Ecological debt that the North owes the South, especially Africa, is also vast. Only some of these factors are incorporated in the alternative accounting systems of the World Bank and other ecological and social indicators such as Redefining Progress (which to be fair doesn't specify country-level data in sites like Africa).

In response, progressive African activists and allied intellectuals should be increasingly capable of building upon their citizenries' profound skepticism of ruling elites. According to *Afrobarometer* polls and the *World Values Survey*, 'Africans care about equity and public action to reduce poverty. They are less comfortable with wide wealth differentials, and have a strong commitment to political equality. About 75% of the respondents agree that African governments are doing too little for people trapped in poverty' (World Bank, 2005b: 5). The challenge will be to establish not only alternative conceptions of poverty and inequality so that the broader structural processes of accumulation by dispossession are clear—but also a different approach to public policy and politics.

Those conceptions are not limited to a set of policy reforms (though such can be provided whenever necessary, drawing upon real experiences

in history and across the contemporary world). Most importantly, the solution to the looting of Africa is to be found in the self-activity of progressive Africans themselves, in their campaigns and declarations, their struggles –sometimes victorious but still mainly frustrated– and their hunger for an Africa which can finally throw off the chains of an exploitative world economy and a power elite who treat the continent without respect.

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MAMMO MUCHIE*

THE IMPACT OF THE WASHINGTON CONSENSUS ON DEMOCRATIC STABILITY: THE CASE OF ETHIOPIA¹

IN THE 21ST CENTURY structural adjustment has been reformulated within the developing world to achieve poverty reduction by implementing donor and local elite negotiated poverty reduction strategy papers (PRSPs) and also to achieve the Millennium Development Goals (hereafter MDGs).

In the case of Africa, many states are expected to be able to meet these two objectives. The twenty year period of structural adjustment is supposed to have prepared them to meet these goals. The question is whether structural adjustment has been conceptualised in a necessary and/or sufficient way to help meet these goals? The answer is of course no. The main weakness of the structural adjustment approach coming from the Washington institutions is the rupture of the economy from politics. One of the key weaknesses of the structural adjust-

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1 For a substantive critique of the 'poverty reduction' rhetoric from the donor world, see the chapter by Muchie, Mammo "New Analytical Perspectives on Poverty and Violence Eradication in Radically Unequal Societies: a Mathematical Representation" in Muchie, Mammo and Xing, Li (editors) 2006 *Globalisation, Inequalities and the Commodification of Life and Well-Being* (London: Adonis - Abbey Publishers).

ment ideology is the sufferance of what Karl Polyani calls the rupture or disembedding of the economy from society. The economy was conceived separately from the politics that should guide it. The market is seen as a technical instrument devoid of political implications. The economy was supposed to be managed technocratically and politics was to enter into the economy adjusting itself to serve mainly narrow economic goals dictated by market and private relations. By applying this twisted logic, a process was set where autonomy and accountability, growth and redistribution and consensus and inclusiveness moved in opposite or bifurcated directions.

STRUCTURALLY ADJUSTED GOOD GOVERNANCE VS. DEMOCRATIC GOVERNANCE?

The case of Ethiopia illustrates this dilemma emanating from structural adjustment policies. I shall illustrate the point by taking the issue of governance. It is a truism that poverty eradication without a foundation in democratic governance will unravel or will not be irreversible. Only democratic governance and not what is often sold as '*good governance*' provides the necessary condition for doing away structurally with poverty at the root. The difference between *democratic governance* and *good governance* is significant. The donors invented what they call '*good governance*' and mean by it anything but democratic capacitating of citizens. By good governance, they stress very often authoritarian managerial ability such as: capacity to repress a people to keep law and order with authoritarianism, technocratic ability to implement donor-local elite negotiated agenda such as the so-called poverty reductions strategy papers and Millennium Development Goals (MDGs). As long as a regime controls the people and is willing to follow the foreign policy of the major donors, it can even qualify for special ally status. This has been the way the so-called 'new generation leaders' have been selected in Africa, not how democratic they are to their people, but how 'good' and receptive they are to the donors. It is the donors that dubbed them as 'new generation leaders' and not their own people! None of them are qualified as 'new' for practising any form of democratic governance. It is their volunteered 'commitment to poverty reduction, economic growth and support to global security interests' that have been considered for their positive evaluation, graduation and qualification. And they have been feted and given generous budget support despite the fact they have been violating human rights, repressing the people and violating the rule of law and basic freedoms in their societies.

In some cases of '*good governance*', donors recommend what they call civil society oversight of the state. But the sort of civil society that gets invited or selected to do the oversight is often loyal to the regime

and makes often inconsequential criticisms. It has been used to forestall real participation by the appearance or form and not the content of real popular participation and inscription of people's interest in the state. Loyal civil society is often recruited to legitimise authoritarian action by undemocratic regimes and injures real democratic progress by postponing the participation of the people under the guise that they have representatives that are assumed to carry out oversight of the state, regardless of whether the agents such as NGOs from civil society represent constituencies or not.

Standing for, and qualifying for democratic governance is a wholly different conceptual matter vis a vis standing and qualifying for good governance. The opposite of good governance is bad governance. Good and bad in relation to governance connotes degrees in capacities to govern. That ability can be with or without democratic accountability and legitimacy. It connotes degrees of effectiveness and capacities based on criteria that may or may not include democratic dispensation.

The opposite of democratic governance is either non- or/and anti-democratic governance. This explicitly factors in democracy as the bedrock for measuring the effectiveness and capability of governance. This is not thus a semantic quibble. It relates to a substantial way by which donors frame the politics and economics of the governance of the development process.

Democratic governance is based on people's choice. It puts at the centre people and their real and effective presence or participation in Government directly or through their legitimate representatives. Good governance centres elite capacity to govern and manage economic growth. It focuses more on the economy and security rather than politics and democratic development in a country. In democratic governance, legitimacy comes from people and society and not external donors. Democratic governance stresses political capacity based on people's voices and choices and not authoritarian managerial and technocratic ability to employ authoritarian methods to deal with poverty. Democracy capacitates the citizen, the society and the people by making the state accountable. Democratic Governance shuns authoritarianism and celebrates democratic accountability to the rule of law and human rights and the protection of basic freedoms. The major donors have been often lukewarm to democratic governance and quick to prefer and advocate what they describe as 'good governance', in the form of what they often describe as capacity building. Democratic governance capacitates the individual, the society and the people and the nation. Dictatorship in Africa debilitates, while democracy can revitalise and infuse life with a spirit of freedom to create, imagine and make futures.

MEETING MDGs?

Is Ethiopia or for that matter, indeed much of Africa on target to meet the MDGs? According to a 2005 report by the IMF and World Bank, the prospect that the MDGs would be met by 2015 appears dim. So what does it mean when World Bank officials claim that the regime in Ethiopia is committed to poverty reduction and meeting MDGs? Why is it that Ethiopia is still a food-dependent economy? How can a country be truly sovereign when it begs the most essential matter of all—food for the people in a country that has enough arable land to feed not only itself but even much of the people in the Middle East? What kind of economic management and capacity has this regime? We know it has a capacity to kill, but to create economy and food security after 15 years in power, that we have not seen, much as we would like to.

Even when donors laud success, it is often at the expense or loss of what will build an African national economy. Take the case of the cut flower market. Donors laud economies like Ethiopia's entering the cut-flower market. The weird thing about it is that a lot of the East African economies are involved in this cut-flower business. The source for the cultured seed for the flowers comes from Holland. Donors talk about how these economies are on the move and the example of success that was bandied about is cut-flower. What is interesting is that large arable land is devoted in all these regions to this business and the seed producer has the last laugh creating many sources for production thus creating reduction in prices prompting each economy to increase the volume of production. Is this sensible economic management? Whatever happens to African regional integration when economies not only compete for the same markets on primary commodities, but also on value added manufactures? In Ethiopia who benefits from this trade and who owns the cut-flower business? That is yet another matter donors do not see before they praise a regime on its success in the cut flower business.

POVERTY REDUCTION?

The story of the regime's commitment to poverty reduction is no different from the failure to meet MDGs. Even if this donor assessment of the regime's assumed commitment to poverty reduction were to be taken at face value, commitment to poverty reduction should not be used to deny commitment to democracy. In fact if a government is not able to resource self-reliantly poverty reduction, deploy institutions, put in place systems and incentives, and implement policies based on democratic legitimacy, there is no doubt the commitment to poverty reduction would end up being shallow or even misguided. It is to be disingenuous by donors to repeat the commitment of the Meles

regime to poverty reduction while watering down the much needed donor understanding and resolute stand on the side of the people that revealed their own agency for democratic governance on May 15, 2005 so splendidly. It is not simply enough to praise tyrants who kill and exonerate their dictatorial sins for their subservience to ideas for poverty reduction that are doomed not to lead to an irreversible eradication of poverty from Ethiopian soil by launching a simultaneous white revolution (milk production), blue revolution (water production) and green revolution (agricultural food production) in the Ethiopian country side. Deep democracy is the necessary foundation for the eradication of poverty in Ethiopia by creating the legitimacy to undertake the much over due green, blue and white revolutions in the world of the Ethiopian country side.

CONCLUDING REMARK

Donors must understand that poverty reduction by itself does not make regimes democratic no matter how much this is repeated in their rhetoric. The distinction between 'good' and democratic governance remains critically important conceptually and in relation to the implications to policy decisions and implementation strategies. To overlook the distinction is tantamount to fighting democracy itself in Africa under the guise of fighting poverty. Dyed in the wool tyrants in Africa are tolerated when they must be fought and told off in no uncertain terms for violating democracy because they are assumed committed to poverty reduction (mind you not poverty eradication!) Unfortunately, the donors are trapped by their own discourse of preferring to subordinate democratic governance to regimes' gratuitous claims of commitment to poverty reduction and meeting the MDGs. This donor argument does not stand up to critical scrutiny, and unfortunately makes their feeble stand against tyranny to be politically, morally and intellectually susceptible.

The donors must not rupture commitment to democracy and commitment to poverty reduction and meeting MDGs, if they wish to be politically, morally and intellectually sensitive and consistent. That requires they learn to be different actors, which is not easy to be. They learn to ditch the Washington consensus which is easier said than done.

BELUCE BELLUCCI*

**ALL AND NOTHING:
CAPITAL'S WAGER IN MOZAMBIQUE**

THIS ARTICLE TAKES A BRIEF LOOK at the two economic bets for reducing misery in Mozambique, one of the world's poorest countries, showing the complete schizophrenia between them: capital on one side and labor on the other, with capital coming out on top, as always.

Located on the east coast of Africa, Mozambique has been wracked by crisis since the 1970s, with economic, social, cultural and political consequences. It currently has one of the lowest rankings on the Human Development Index (HDI) formulated by the United Nations Development Program (UNDP). On the HDI ranking for 2002 (published in 2004), Mozambique placed 174th among the 177 countries listed. Of the 36 countries with low HDI, 32 are in sub-Saharan Africa. Of the 50 African nations listed, 32 have an HDI considered low, 17 have a medium level, and one (Seychelles) has a high index.

Since so many African countries have weak human development, and most of these were colonies until well into the twentieth century, it is logical to assume there is colonial complicity in the Mozambique's plight of today. This colonial action in Africa was a way for capitalism to ensure cheap labor and to transfer wealth to the mother countries. The reasons why countries formed by colonialism in the twentieth century now face

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similar macro-structural economic, social and political situations are the same when viewed in the light of exploitation and modernization, these countries are in similar critical situations.

The modernization of Mozambique, including the establishment of a national state and the implementation of socialism, occurred belatedly in the world context (in the 1970s): when nation-states began to lose weight in international relations and found their margin for maneuver and sovereignty constrained.

The late 1980s saw a shift to neoliberal policies and programs, aiming to revive the economy, which had been burdened with debt and unstructured during the period of developmental modernization, its productive capacity reduced to only one-third of its previous level. The process of economic modernization in Mozambique occurred very slowly during the colonial period, but with consistent signs starting in the 1960s. This modernization banner, though totally reformulated, was taken up again by the socialist Frelimo government, constituted after independence from Portugal. The crisis of modernity in socialist molds was particularly felt in Mozambique. But the reasons for the crisis cannot be laid on socialism alone, because the majority of African countries also faced this crisis and only some of them adopted the socialist model. Nevertheless, it is worth noting that the socialist experience in Mozambique was the deepest and most lasting on the continent (1976-86).

After the Second World War, when the new cycle of capitalist economic growth accelerated the process of independence in the European colonies, Portugal held back in letting go of its colonies. In the case of Mozambique, this delay resulted in ten years of armed struggle for national liberation. The struggle was led by the Mozambique Liberation Front (Frelimo), headed by Samora Moisés Machel, its second president (the first, Eduardo Mondlane, was assassinated by the Portuguese Secret Police –PIDE– in 1969). Mozambique finally won its independence on June 25, 1975, after a short period of transitional government initiated on September 7 the previous year, during which the Portuguese colonial government shared power with Frelimo, with Joaquim Chissano acting as prime minister. When independence became official, Machel became the first president of Mozambique, under a single-party regime and a socialist constitution. The Front was transformed into the Frelimo Party in 1977.

With an economy dependent on neighboring South Africa and Rhodesia (now Zimbabwe), at the time under racist governments supported by the United States, Mozambique suffered the effects of a war of destabilization undertaken by these governments, caus-

ing incalculable losses. Nevertheless, Frelimo went forward with its projects to modernize the economy and the social relations begun by the Portuguese in the 1960s, by creating a strong state-owned sector and putting workers on the public payroll. The destabilization war started to become internalized in the 1980s, because of the failure of government projects to assure production, the absence of “traditional” values in the power structure, the abandonment to which domestic society was relegated (defined here as the great majority of the rural population with its own social organization predating colonialism, which still exists today), and above all, the rearguard and substantial military and economic support given to the MNR (later Renamo) by South Africa¹.

By 1983, the social, political and economic situation had deteriorated to the point of making Mozambique extremely vulnerable and dependent on humanitarian aid to alleviate the affects of the war, natural disasters and economic difficulties. That year the government made a non-aggression pact with its neighbor South Africa (which did not succeed), and another agreement with the International Monetary Fund and the World Bank (which did succeed), moving away from its socialist policies.

The economic problems faced were of different orders. There were internal factors resulting from the gap between the goals of Frelimo’s projects and its capacity to achieve them. This mismatch between what it wanted and could really attain was linked to historical factors. It was fruit of the socialist modernizing proposals, within the progressive framework of the reigning world system. But it also ran up against external factors provoked by the destabilization war, which aimed precisely to debilitate the country’s economy.

At the end of the 1980s, Frelimo promoted a series of changes, including in the constitution and establishing a multiparty government. It abandoned the centrally planned model and shifted over to a market economy. In 1992 Frelimo and Renamo signed a peace accord, and direct elections were held in 1994, with Frelimo winning and Joaquim Chissamo being elected president, a post he had already occupied since 1986 when as minister of foreign affairs he replaced President Machel, who died in an airplane crash (possibly sabotage) in South Africa. He

1 MNR stands for the Movement for National Resistance, later called the Mozambique National Resistance. It was founded in 1976 by the racist government of Ian Smith in Rhodesia, and supported by diehard colonialists. With the independence of Zimbabwe in 1980, it transferred its staging areas to South Africa and made incessant bloody raids into Mozambique territory. Only later, with the adhesion of dissidents from Frelimo, did it become a political party under the Portuguese name *Resistência Nacional Moçambicana*, or Renamo, led by Afonso Dhakana, still its head today. It now has parliamentary representation and runs some important cities.

was reelected in 1999. Frelimo also won the 2004 elections, under its new standard-bearer, current President Armando Guebuza.

Peace has effectively been established throughout the country since the 1992 accord, despite the lingering effects of the long years of strife. The political situation has been stable, without the former climate of belligerence. The existing social and institutional violence is fruit of the *normal* process of capital accumulation between those who own and do not own goods and properties, with police and private militias imposing order. The effects –besides the psychological trauma caused by all the deaths and disappearances, the uprooted (data indicate over 4 million had to flee their homes, in a country of 16 million), wounded and crippled– are the disorganized social structures, which are recomposing slowly, the return of capital and old production relations from South Africa and Portugal, with the same accents and strict control, and the same impunity required for the action of capital, as well as the protection of the powerful, only now of all colors.

If the present is nothing to brag about, the future holds little promise. The most optimistic forecasts envision it will still take decades to reach the 1973 level of economic output, Mozambique's best. To face this situation, the Ministry of Planning and Finance starts from the premise that:

Without economic stability, there is no climate to stimulate economic growth, without which there is no way to reduce poverty. [...] economic stability is fundamental for economies to grow. Stability is normally measured by variations in price levels, interest rates and exchange rates. These variations are determined, in general, by policies that affect demand in the economy. These policies are monetary, fiscal and exchange rate policies, which are generally determined by governments (Franco, 2000: 215-6).

In 1950, Mozambique's population was around 6.5 million people. From there it took off, reaching 7.6 million in 1960, 9.4 million in 1970, 12.1 million in 1980, 14.4 million in 1991 and 16.9 million in 1999. It is the fourth most populous country among the 14 that make up the Southern African Development Community (SADC).

In 1997, the country's GDP was calculated at between 2.4 billion and 3.4 billion dollars, varying according to the source (UNDP or World Bank). In 1998, its GDP had reached roughly 3.9 billion dollars, of which the northern region contributed 21%, the central region 31% and the southern 48%. According to government reports, nearly 70% of the people live in abject poverty, represented by both material and cultural privation, not to speak of privation of life itself. Indeed, the country's Human Poverty Index is the highest in the entire southern cone of Africa.

In overall terms, the economic results since the start of the current decade continue to show concentration in the country's southern

region, with nearly 51% of the people and 49% of the production, the standout being the capital of Maputo, which is responsible for nearly 36.9% of the country's output. The central region contributes 27.7% of production, while the northern figure is only 21.3%.

The national yearly per capita GDP reached 200 dollars in 2000. The importance of agriculture in Mozambique is shown, above all, by the fact that it occupies 80% of the people, although it only contributes 30% to the GDP volume, while approximately 70% of aggregate export revenue derives from agricultural products and renewable resources.

Agriculture continues to be the activity with most weight in the economy, both at the national and regional level. But its participation has been declining over the years in favor of other sectors, such as industry and commerce. In 1997, agriculture accounted for 24.9% of GDP, while in 2000 its total share of the economy had fallen to 22.9%. In the same period, in contrast, the manufacturing sector racked up a solid gain, rising from 9.9% of the economy in 1997 to 13.6% in 2000.

Life expectancy in Mozambique is 42 years, against 48.9 in Sub-Saharan Africa. According to the organizers of the UNDP Report, the data could have been "even more positive":

Had it not been HIV/AIDS, certainly captured by the birth and death trends of the population recount of 1997, and if the rate of economic growth had maintained the trend of recent years, the results would have surely been more positive. The results renew the hope that although there is still far to go, Mozambique is, in purely relative terms, ready to take important steps to reduce the needs of its population (PNUD, 2000: 21).

The literacy rate of the adult population is 39.6%, meaning that only some 6.4 million of the 16.1 million Mozambicans know how to read and write. The percentage of people attending school, from the elementary through college level, increased from 29% in 1997 to 36% in 2000.

Until 1975 Mozambique had colonial-style capitalism, with the strong presence of Portugal's Salazar regime². With independence, socialist modernization was imposed, conceived as a system to produce manufactured goods supported by a strong state, formally different than capitalist models. Starting in 1992, a capitalist, democratic and liberal system was instituted. People, goods and capital could circulate freely throughout the country, from Rovuma to Maputo. The legal system was adjusted accordingly, readying the country for its new international insertion, to the liking of big investors. However, never before did the country face such misery with so little autonomy. After all the contribution to the production of wealth for the world system

2 Referring to António Salazar, Portugal's dictator from 1932 to 1968.

in the twentieth century, the country was basically abandoned on the junk pile of the new world order.

Against this backdrop, in general lines, two economic policy proposals were formulated at the end of the century by the Ministry of Planning and Finance, with the direct help of international organizations and respected university experts. They were presented as complementary, to form the main productive base for eliminating poverty.

THE MEGA PROJECTS

Foreign direct investment (FDI) is one of the pillars of economic policy, used by large business groups, usually in partnerships, in planning their productive actions on a worldwide scale.

African countries have received scanty foreign investments, while suffering large-scale capital flight, “as the holders of assets transfer them to more secure places” (MacPherson, 2002, p. 134). For this reason, the Ministry of Planning and Finance sought to carry out institutional reforms to attract foreign capital, creating a scenario in which the return on private investments had risks proportional to those available abroad (might this be called the “Mozambique risk”, to keep capital properly nourished?).

In 1997, FDI in Mozambique totaled 65 million dollars, but in the following two and a half years this skyrocketed after the government approved a huge undertaking to produce aluminum worth 1.34 billion dollars. This was the Mozal Project, which started operating in June 2000. According to the *World Investment Report* (2000) from UNCTAD, this investment put Mozambique in sixth place in the ranking of African nations receiving FDI, behind only Angola, Egypt, Nigeria, South Africa and Morocco. In 1999, Africa as a whole received FDI of nearly 10 billion dollars, a paltry sum compared with the 106 billion dollars that went to Asia and 90 billion dollars invested in Latin America.

Since Mozambique’s GDP in 2000 was only about 4 billion dollars, projects of this nature have a profound impact on the country’s accounts. And other mega-projects are on the drawing board: doubling the capacity of Mozal, which will involve expanding the Cahora Bassa hydroelectric facility; construction of a new hydropower project at Mepanda Uncua; the Temane and Pande natural gas project; the project for an iron and steel foundry in Maputo; the heavy sand corridors project to exploit titaniferous mineral sands; and the Dobela Port project, to build a deepwater port in Maputo, among others.

Studies carried out for the Ministry of Planning and Finance by consultants from Harvard University reveal that these mega-projects will have a large impact on the country’s GDP and trade balance, but not on national income and the balance of payments, because of the

return financial flows for debt service payments and repatriation of profits. Since the projects are capital intensive, a good part of the cash flow will go to pay off foreign creditors and for profit remittances. The impact of these projects on the creation of local jobs will be small, due to their technical characteristics. Only five thousand direct jobs would be created in six mega-projects, with another fifteen thousand support jobs. This works out to over a million dollars for each job created.

It took two and a half years to construct Mozal. In 1998, 220 million dollars was spent on land grading and buildings, followed by another 875 million in 1999 and 245 million in 2000 to acquire equipment. Only 6% of the project's value was spent on goods, services and labor in Mozambique. A key reason for this low remuneration of local factors was the fact that the subcontractors largely called on foreign resources.

The total annual production capacity is 245 thousand metric tons of aluminum, all for export, worth an estimated 400 million dollars. A yearly total of 500 thousand tons of alumina and 96 thousand tons of coke are imported, at a cost of 90 million dollars, besides the intensive use of electricity, supplied by Motraco, a new company with transmission lines running through South Africa, at a cost of 60 million dollars. Additional costs are 80 million dollars for imported services, 2 million for local services and 4 million for value-added taxes. The project employs about 650 Mozambicans, with salaries adding to 5 million dollars a year (an average of about 7,700 dollars), along with 90 foreigners. Other jobs are being created, such as for security services, food supply, etc.

The financial structure consisted of 38% equity capital, 50% senior debt (nearly all from South Africa, in the form of an export loan, with that country being the supplier of electricity) and 12% subordinated debt. The equity investment was 520 million dollars, divided among Billiton (47%), Mitsubishi (25%), IDC (24%) and the Mozambican government (4%). The government's part, 20 million dollars, was financed by the European Investment Bank. The annual debt service (interest and amortization) of all the loans is 80 million dollars, and the direct domestic aggregate value is approximately 160 million dollars a year. The project's production has an impact on GDP of slightly more than 5%, but the direct effect on national income, that is, the extra income earned by Mozambicans, is only 18 million a year.

Profits are around 65 million dollars a year, with the government's share (4%) being 3 million. The contribution to the trade balance is positive 160 million dollars (400 million in exports less 240 million in imports), but the overall effect on the balance of payments is small, because all the profits are being repatriated except the government's 3 million. Thus, only the 4 million dollars in value-added taxes and the 3 million in dividends accrues to the government. To this another 1

million dollars can be added in payroll taxes. Because it is a duty free zone, Mozal is exempt from indirect taxes.

Phase 2 of the project, concluded in 2004 (but for which data are not available at this writing), was planned to double output. However, projections were that only 2,650 new jobs would be created for construction, and that the number to maintain production would only be 1,300.

Other mega-projects are on the cards with the same size and output characteristics as Mozal. In other words, there will be a strong impact on GDP, some on the trade balance, less still on the balance of payments and very little on the value aggregated to the local economy in terms of job and income creation. Since all output is earmarked for export, as is nearly all the profit, what these projects amount to is extraction of value from Mozambique, not because of its cheap labor supply, but instead because of the existence of abundant electric power (particularly important to make aluminum in the case of Mozal), along with a political climate accepting highly polluting industries and easy profit repatriation.

The government sees these mega-projects as important, because they are export oriented and “bring benefits by linking Mozambique to the international economy”. Besides this, it is believed that “international trade has proved to be particularly important as a channel for development and diffusion of technology”. (Andersson, 2002, p. 553). Only time will tell how justified is the optimism that Mozambique will benefit from aluminum production technology. But to continue with the Harvard consultant working for the Ministry of Planning and Finance, in defense of the mega-projects:

The projects are showcases of the possibility of investments in Mozambique. They improve infrastructure and spread many benefits to the citizens. They provide opportunities for the Mozambican labor force to learn skills. The mega-projects are also linked to Mozambique’s large natural resource base. Beyond this, Mozal, MISP [Maputo Iron and Steel Project] and the Sands Corridors all require huge quantities of electric power, and the availability of cheap energy has been important to their location decisions. An important aspect to Mozal has been the treatment received in Mozambique on the part from the European Union under the Lomé Convention. The aluminum produced in Mozambique will be imported into the EU with tax exemption.

The mega-projects, however, will not resolve the unemployment problem in Mozambique. All are capital intensive and only a limited number of direct jobs are being create (Andersson, 2002:553).

The overall impact on GDP of the six mega-projects together will doubtless be large. If they are realized, they can cause GDP growth by 2010 of around 37%, but only a 7% increase in national income, with 20

thousand new jobs. In this same period, it is estimated that another 3.7 million people will enter the country's labor market. What will be done with these potential workers? The experts have the solution. Alongside these big capital-intensive projects, they propose labor-intensive ones, also aimed at the export market, the so-called labor-intensive manufactured exports (LIME) investments. These are discussed below.

LABOR-INTENSIVE MANUFACTURED EXPORTS (LIME)

Labor-intensive manufactured exports should be a central element of a "pro-poor" development strategy, according to Soumodip Sarkar, an expert working for the Ministry of Planning and Finance, who feels that Mozambique has everything to attract investments of this type. In contrast with the mega-projects, which generate very few jobs, LIME industries can create them quickly. As an example, he cites the case of three factories built with Taiwanese capital in Vietnam that make sports shoes as Nike subcontractors, generating 45 thousand jobs. He also mentions Lesotho, which generated 19 thousand jobs in the apparel and footwear industry with annual export revenues of 100 million dollars. In this case, it must be remembered that these are values exported, not values aggregated to the country. He goes on to say that many of the so-called "Asian tigers", such as South Korea, Malaysia, Thailand, and even Vietnam, triggered their industrialization based on these types of industries. He also cites Mauritius, which transformed itself from a poor exporter of cotton to a rich country with diversified exports. And finally, he proposes that because of

the high level of FDI inflows in recent years, and the abundance of cheap labor in Moçambique, one would expect that the country is ideally suited for labor-intensive manufacturing operations in areas such as apparel and textiles, agro-processing, leather goods, toys, sporting goods and electronic assembly. Moçambique's fundamental comparative advantage and favorable geography place her in an advantageous position for attracting LIME investments as an engine of sustainable growth and job creation. In addition, the tax environment is highly favorable, and the creation of export processing zones (Sarkar, 2002:475).

But I ask how one can intend "sustainable development" to rest on an industry practically devoid of fixed capital, one that can be transferred to another country quickly in function of fluctuations, such as lower wages in another country or a domestic wage increase?

Later the planner confesses: "Recent large increases in the minimum wage, if continued, will also threaten to undermine Moçambique's competitive advantage in labor-intensive industries". (Sarkar, 2002, p. 476). As can be seen, even before starting the process, there is already the looming risk of a possible increase in the minimum wage.

And this is in a country (attested in the same Ministry of Planning and Finance document) whose priority is to reduce absolute poverty and whose minimum wage is under 40 dollars a month... Either the proposal for industrialization through LIME is not serious, or the intention to reduce poverty is not serious. I believe the latter is most likely.

According to the proposal, there are several advantages of this type of industrialization, namely: (i) passage of the Africa Growth and Opportunity Act by the U.S. Congress in June 2000, opening the American market to these types of products; (ii) the “flying geese” phenomenon, in reference to the flight of investments from countries such as Mauritius, where wages have increased (when they rise, it’s all over...); (iii) the new SADC trade protocol, which facilitates these transactions; and (iv) the existing preferential trade agreement with Europe.

These industries, it cannot be forgotten, are generally based on individual or family labor, using means of production (sewing machines, glue, etc.) belonging to the workers, who receive the raw materials and only provide their own intense physical input, in a process of cutting, sewing and assembly, depending on the product involved. The company employing them does not have capital in the country, brings in its own raw materials for a piecework cycle carried out locally, and obtains a finished product to be sold in the international market. These goods are the world’s designer label pants, shirts and ties, the branded athletic shoes, and in a slightly more sophisticated process, the electrical, electronic and computer products. This, then, involves individualized labor processes that permit extra exploitation.

Individualization of work is the process by which the contribution of

labor in the productive process is defined in specific form for each worker and because of each worker’s contribution, whether in the form of autonomous or individually contracted work, based on a highly deregulated market (Castells, 2002:97).

This process, utilized in exports of labor-intensive manufactures, is one of the aspects of acute exploitation, responsible for exclusion of various countries and regions, and can be defined as indicating labor relations

that permit capital to systematically retain the payments/allocation of resources or impose more rigorous working conditions on certain types of workers, worse than are considered the norm/rule in a given labor market in a determined time and place. This refers to the discrimination against immigrants, minorities, women, youths or other categories of marginalized workers, in a way that is tolerated or sanctioned by regulatory bodies.

A significant trend in this context is the emergence of paid child labor in various parts of the world, under conditions of extreme violence, exploitation and defenselessness, reversing the historical pattern of social

protection of children, existing not only in the last industrial stage of capitalism, but also in industrial statism and traditional agricultural societies (Castells, 2002:97).

The proposals of the IMF, the World Bank and big capital (the LIME alternative), which have been accepted by various governments, such as that of Mozambique, a country where 70% of the population lives in absolute poverty, differ little, not even in cynicism, from the welfare programs for Africans in the colonial period.

From a novel perspective, the mega-projects act in the old Mozambican picture with much dead labor and nearly no live labor, while the LIME initiatives act with much live labor and nearly no dead labor.

At the current moment of neoliberal globalization, there is no con- vocation of the population, as defended by Frelimo in the 1970s and 80s, for participation and integration in the economy, either as workers or as consumers. Integration in the globalized world is through a production process and not through a labor process. Much has been invested in Mozambique in the mega-projects, aiming at exporting and using little local labor. But capital does not extract now income from domestic soci- ety. The high value added extracted comes from the high composition of capital that exploits little labor. Furthermore, these ventures pay few lo- cal taxes, and do not produce for internal consumption. The integration in the globalization process is in practical terms the rent that big inter- national capital pays to the government, for a space where it produces for the benefit of outside capital itself, along with a small local elite.

To occupy the population, then, they propose labor-intensive man- ufactured exports. These enterprises are not based anywhere because they are inherently volatile. They are an itinerant way of international exploitation that is part of the so-called globalized world.

Nevertheless, Mozambique's exclusion is not only social. Above all, it is economic. And political exclusion is a condition for economic exclusion. Mozambique has unconditionally adhered to all the letters of intention with the IMF and impositions of international lenders. It established the peace process with Renamo, democratized the coun- try with direct elections, freedom of political parties, the press and circulation of capital, and above all, it brought good governance, per- mitting high profits and their repatriation.

The proposal of the IMF, World Bank and big international inves- tors, endorsed by the government, to attract mega-projects and LIME –in a country with 70% of the population living in abject misery– puts a new face on exploitation, but continues with the same colonial po- litical objectives of despoiling the Mozambican people. The exploita- tion and humiliation the people suffered during colonialism were jus- tified as a mission to assimilate and civilize the natives for work and consumption, with the myth of development. Now, in the neoliberal

policies, exploitation and exclusion are presented with the objective of diminishing poverty and misery...

The absence of effective alternatives permits the flowering in Mozambique of Mafia-style and paternalistic relations, known as perverse integrations. These are relations that did not exist in the country and now dominate the drug trade, arms smuggling, the actions of “protection groups”, etc., occupying leading positions in the world of business, politics and society in general. They correspond to the forms of labor practiced in the criminal economy, generating their own profits, which by the legal rules are considered criminal. These relations are in full flower in Mozambique and give a particular dynamic to social exclusion, in articulation with global capital.

In the final analysis, the bets of capital for Mozambique are translated into mega-projects, with much dead labor and nearly no live labor, and the efforts to generate exports from labor-intensive industries, with much live labor and nearly no dead labor. This is the essence of the current economic policy, which takes advantage of the reigning misery to increase the gains of big capital, borne on the bandwagon of democracy, peace, security and good governance. In this context, perverse integrations multiply in the breast of the people, without capital and without work, but other seeds are also being sown among the multitude, which will grow into future rebellions.

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WALDEN BELLO*

THE GLOBAL CRISIS OF LEGITIMACY OF LIBERAL DEMOCRACY

IN MY BOOK, *DILEMMAS OF DOMINATION*, I identify three dimensions of the crisis of liberal democracy. The first is the crisis of overextension, or the growing gap between imperial reach and imperial grasp, the most striking example of which is the US's being drawn into a quagmire in Iraq. This has led to an erosion of its strategic position globally and made the threat of the employment of US military force to discipline recalcitrant governments and forces throughout the world less credible than it was three years ago. Hugo Chavez' scintillating defiance of American power would not be possible without the Iraqi resistance's successfully pinning down US interventionist forces in a war without end. The second is the crisis of overproduction, overaccumulation, or overcapacity. This refers to the growing gap between the tremendous productive capacity of the global capitalist system and the limited global demand for the commodities produced by this system. The result has been, over time, drastically lowered growth rates in the central economies, stagnation, and a crisis of profitability. Efforts by global capital to regain profitability by more intensively exploiting labor in the North or moving out to take advantage of significantly lower wages elsewhere

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have merely exacerbated the crisis. On the one hand, neoliberal policies in the North and structural adjustment programs in the South have gutted global demand. On the other hand, the export of capital has created massive new industrial capacity in China and selected other countries. New productive capacity and stagnant if not declining global demand is the recipe for the exacerbation of the crisis of profitability.

One indicator of the deepening crisis of profitability is that competition has replaced cooperation as the dominant aspect of the relationship among global capitalist elites. From the project of globalization that more or less united the global capitalist class during the Clinton era, we have entered, in the Bush period, into a period of intense national or regional capitalist competition. In so far as the Bush administration adheres to the globalist capitalist project, it is that of managed globalization, one that ensures that US corporate interests do not get hurt but become the main beneficiaries of the process. Protection for US corporate interests and free trade for the rest of the world- this is the operational dictum of Washington, one that is now on display in the US's adamant refusal to abide by the NAFTA ruling on Canadian softwood imports. Given this nationalist-protectionist posture on the part of Washington, it is not surprising that the WTO talks leading to the Sixth Ministerial in Hong Kong are in danger of collapse.

The third dimension of the crisis that I identify is the crisis of legitimacy of US hegemony. This, I think, is as serious as the other two crises, since, as an admirer of Gramsci, I do think that legitimacy, more than force or the market, is the lynchpin of a system of social relations. One dimension of this crisis of legitimacy is the crisis of the multilateral system of global economic governance owing to the US' no longer wanting to act as a *primus inter pares*, or first among equals, in the WTO, World Bank, and the IMF, and its wishing to unilaterally pursue its interests through these mechanisms, thus seriously impairing their credibility, legitimacy, and functioning as global institutions. Another dimension of this crisis of legitimacy is the crisis of Lockean democracy, that model of democratic rule that the US has promoted as the system of self-rule both in the North and in the South. I would like to focus the rest of my talk on this dimension of the crisis of hegemony.

Lockean democracy is in crisis throughout the whole world today. This is ironic, given the fact that just over a decade ago, liberal democracy American-style was supposed to sweep everything before it. How different from the Fukuyaman end-of-history mood is the sense of crisis today, one that the thinker Richard Rorty captures quite well in his comment: "In the worst case scenario, historians will someday have to explain why the golden age of Western democracy, like the age of the Antonines, lasted only about two hundred years" (Rorty, 2004: 10).

Let me begin with the United States. There, the “democracy” in liberal democracy has long been put into question by the massive hijacking of elections by corporate financing that has corrupted both the Republican and Democratic parties and the systematic disenfranchisement of poor people symbolized by the Florida elections of 2000 and the Ohio elections of 2004.

There, corporate rule has reached its apogee with George W. Bush doing the bidding of US industry in torpedoing the Kyoto Protocol, awarding his vice president’s corporate allies such as Halliburton with no-bid contracts, going to war for his oil cronies, and creating a free-market paradise for US corporations in Iraq.

There, the military establishment has become so unaccountable to its nominal civilian superiors that one cannot but agree with William Pfaff when he writes, “The United States is not yet eighteenth century Prussia, when the military owned the state, [but] the threat is more serious than most Americans realize” (Pfaff, 2001).

There, the “liberal” in liberal democracy has been subverted by a Patriot Act that eliminates many of the few barriers that had remained between the individual and total monitoring and control by Big Brother. The Patriot Act is best described by Harvard Professor Elaine Scarry as “a gigantic license to search and seize that violates the Fourth Amendment” (Scarry, 2004: 12).

What is clear is that what prides itself as the first modern democracy has ceased to be a model for the rest of the world. What I would like to dwell on a bit is the state of democracy in the developing world. Just a decade ago, we were supposed to be in the midst of Samuel Huntington’s so called “third wave” of democratization, as country after country in Latin America, Asia, and Africa threw off ruling dictatorships and adopted variants of the Anglo-American democratic model. Today the recurrent question is: are we undergoing a reversal of that wave? Let me take as an example of the changing fortunes of democracy the situation in my country, the Philippines.

WHATEVER HAPPENED TO PEOPLE POWER?

“People power” used to be synonymous with the Philippines. In February 1986 Filipinos captured the imagination of the world when they rushed out to the streets to support a military rising and ousted the strongman Ferdinand Marcos. Fifteen years later, in January 2001, they again surged to the streets to bring down President Joseph Estrada, who was widely believed to be the recipient of hundreds of millions of pesos from illegal gambling activities. Today, however, they are largely absent while another president stands accused, this time of stealing elections.

Intercepted telephone conversations between President Gloria Macapagal Arroyo and an electoral commissioner during the elections of May 2004 showed her attempting to influence the outcome of the polls. Unable to deny it was her voice in the taped intercepts, Arroyo publicly apologized for a “lapse in judgment”. Instead of defusing the situation, the admission triggered widespread calls for her to resign.

In early September 2005, nearly three months after the scandal broke, Arroyo blocked a bid to impeach her, clinging to power despite a recent poll giving her the lowest overall performance rating among the country’s five most recent presidents. Those numbers were not, however, translated into numbers in the streets. The biggest rally anti-Arroyo forces could muster numbered, at most, 40,000. In contrast, hundreds of thousands had clogged the main highway running through Manila, popularly known as “EDSA”, for days on end in 1986 and 2001.

What happened, asked Manila’s veteran street activists. Why were the people no longer protesting a clear-cut case of electoral fraud by a president who was already vastly unpopular owing to ineptitude, uninspiring leadership and widely believed allegations of corruption even before the telephone intercepts surfaced?

The truth is that while people dislike Arroyo, they are also deeply disillusioned with the political system, which has come to be known as the “EDSA State”. Conversations with middle- and lower-class citizens inevitably produce the same answer to why they’re not out demonstrating: “Well, whoever replaces her will probably be as bad, if not worse”. Intrigued at the discovery that only a handful of students in my undergraduate class in political sociology at the University of the Philippines, the traditional hotbed of activism, had attended the rallies, I posed to them the question, “Is this democracy worth saving?” Two thirds said no.

Rather than taking to the streets, people are fleeing in large numbers to Europe, the United States and the Middle East. Some 10 percent of the Filipino labor force now works overseas, and one out of every four Filipinos wants to emigrate. It is estimated that at least 30 percent of Filipino households now subsist on remittances sent by 8 million expatriates.

The widespread cynicism about democracy is understandable, especially when Filipinos compare their lot with the Chinese or the Vietnamese. Some point out bitterly that while authoritarian Vietnam reduced the proportion of the population living in extreme poverty from 51 percent in 1990 to 10 percent in 2003, the Philippines could only bring it down from 20 percent to 14 percent in the same period. They decry the fact that at 0.46, the Philippines’ gini coefficient, the most reliable measure of inequality, is the worst in Southeast Asia.

ELITE CAPTURE OF DEMOCRATIC PROCESSES

I think that one key reason for the crisis of democracy in the developing world is that electoral democracies of the kind favored by the West have been extraordinarily vulnerable to being hijacked by elites. The system of democracy reestablished in the Philippines after the ouster of the Marcos dictatorship in 1986 illustrates the problem. It is one that encourages maximum factional competition among the elite while allowing them to close ranks against any change in the social and economic structure.

VIPPTThe Philippine system is democratic in the narrow sense of making elections the arbiter of political succession. In the principle of “one man/woman, one vote”, there is formal equality. Yet this formal equality cannot but be subverted by its being embedded in a social and economic system marked by great disparities of wealth and income.

Like the American political system on which it is modeled, the genius of the Philippine democratic system, from the perspective of the elite, is the way it harnesses elections to socially conservative ends (Bello, 2003: 80-91). Running for office at any level of government is prohibitively expensive, so that only the wealthy or those backed by wealth can usually stand for elections. Thus the masses do choose their representatives but from a limited pool of people of means that may belong to different factions—those “in” and those “out” of power—but are not different in terms of their political programs. The beauty of the system in the eyes of the elite is that by periodically engaging the people in an exercise to choose among different members of the elite, elections make voters active participants in legitimizing the social and economic status quo. Thus has emerged the great Philippine paradox: an extremely lively play of electoral politics unfolding above a class structure that is one of the most immobile in Asia.

Allowing for institutional and cultural variations, one can say that the dynamics of democratic politics in countries such as Brazil, Argentina, Mexico, Ecuador, and Thailand are similar to those in the Philippines. Elite democracy is one word that some have used to describe this system. Polyarchy is another. However, elite capture of democratic processes is, in my view, only one factor that subverted the performance of the new democracies that emerged in the 1980s. Another development was equally critical: their economic promise was undermined by the demands of external actors.

THE EXTERNAL SUBVERSION OF DEMOCRACY

Let us revisit that historic conjuncture of the early 1980s. The military dictatorships were collapsing not only because of internal resistance but also because key external actors such as the United States, Euro-

pean Union, the World Bank, and International Monetary Fund (IMF) withdrew their support from them. Now, one of the major reasons for this about face was that the dictatorships had lost the credibility, legitimacy, and minimum support to impose the economic reform programs, better known as “structural adjustment”, that these influential forces demanded. Promoted as necessary for economic efficiency, these programs were designed to more widely open these economies to foreign capital and foreign trade and to enable countries to pay off their enormous foreign debts.

For instance, in Brazil and Argentina, tight monetary policies and tight fiscal policies drew opposition not only from labor and other civil society groupings in the early eighties but also from business groups. Business interests once benefited from labor-repressive policies imposed by these military dictatorships. Now, however, business circles began to distance themselves from repressive governments when neo-liberal policies failed to produce the promised economic growth. As Stephen Haggard and Robert Kaufmann observed:

With economic problems mounting, business elites began to reevaluate the costs and benefits of the technocratic decision-making style that characterized authoritarian rule. Business groups had complained periodically about their lack of access to the remote technocrats who conducted macroeconomic policy, but such concerns had been offset by particularistic benefits and the fact that governments were willing to repress popular sector challenges. The private sector’s gradual disaffection did not reflect a democratic epiphany, but a pragmatic response to changing circumstances. With authoritarian governments increasingly unable to deliver their side of the bargain, “voice” began to appear increasingly important to business groups, even if it meant reopening the arena to the previously excluded popular sectors” (Haggard and Kaufman, 1995: 59-60, 192).

The democratic governments which displaced authoritarian regimes soon confronted their own dilemma. On the one hand, redistributive policies were blocked by elites that had joined the anti-dictatorship coalition, a development that we have already discussed. At the same time, expansionary fiscal policies were discouraged by the World Bank and the IMF. It soon became clear that what the multilateral agencies wanted them to do was to use their democratic legitimacy to impose structural adjustment programs. In Argentina, for instance, the international financial institutions pressured the new government of Raul Alfonsin to abandon neo-Keynesian policies, implement tax reforms, liberalize trade, and privatize public enterprises. When the regime quailed, the World Bank “concluded that the government had

not made sufficient progress toward its reform goals and suspended disbursements on a structural adjustment loan”.

Electorate democracy became the prime mechanism for the imposition of stabilization or structural adjustment programs in Jamaica, Haiti, the Philippines, Peru, and Pakistan. In Jamaica, the progressive Manley government suffered a devastating loss of legitimacy when it caved in to pressure to impose an IMF stabilization program blessed by Washington. The program eroded living standards. It led to Manley's crushing defeat in the 1980 elections by a successor who proceeded to continue the same policies at the behest of the IMF. In Peru, the government of Alberto Fujimori was elected on a populist, anti-IMF platform, but proceeded to impose a neoliberal “shock” programs that included steep price increases in the rates charged by state enterprises as well as radical trade liberalization (Huber and Stephens, 1997: 8). These measures provoked a deep recession, leading to popular discontent that in turn provoked Fujimori to suspend the constitution, close Congress, and rule as a strongman with little respect for constitutional restraints.

In the Philippines, the US and the multilateral agencies abandoned Marcos. Not only was his political position untenable owing to massive popular resistance, but his government's lack of legitimacy had made it an ineffective instrument for repaying the massive \$28 billion foreign debt and for implementing IMF stabilization policies. An economic crisis accompanied the end of the old regime, but that did not stop the World Bank and the IMF from demanding that the fledgling democratic government of President Corazon Aquino make debt repayment its top national economic priority. People were shocked, and some of Aquino's economic advisers protested, but the government submitted, issuing a decree that affirmed the “automatic appropriation” of the full amount needed to service the foreign debt from the budget of the national government. With some 40 to 50 per cent of the budget going to service the debt, this practically precluded national development, since all that was left went to salaries and operational expenses, with little left over for capital expenditures. In some years, 10 per cent of the country's GDP was spent servicing its foreign debt. Thus, it is hardly surprising then that the Philippines registered average growth of below 1.5 per cent per annum between 1983 and 1993.

It is ironic that today former President Aquino marches against President Arroyo when she herself was responsible for many economic policies, notably the model debtor policy, that Arroyo inherited. As in Peru, Argentina, and the Philippines, the return of democracy to Brazil was accompanied by scarcely veiled warnings from the IMF and

the US that the first order of business for the new regime was to accomplish what the exiting military regime had failed to do, that is, to impose stabilization programs raising interest rates, cutting back government expenditures, devaluing the currency, and liberalizing trade. From the mid-eighties to the 2002, a series of governments eroded the credibility of democracy by undertaking unsuccessful efforts to impose on a recalcitrant population the economic stabilization desired by Washington and the IMF¹.

The latest victim is the government of “Lula” or Luis Inacio da Silva of the Brazilian Workers’ Party, one of the most committed anti-neoliberal parties on the continent. Before he even won the presidential elections in the fall of 2002, Lula did the unprecedented in Latin America: he promised the IMF that he would honor the high-interest, expenditure-restrictive conditions of a stabilization loan negotiated with the outgoing President Fernando Henrique Cardoso. Lula acted under duress. The Fund made it clear it would not release the remaining \$24 billion of the stabilization loan unless he behaved.

Lula was true to his word. Consequently, in 2003 Brazilian GDP contracted by 0.2 per cent in Lula’s first year; unemployment surged to a record 13 per cent. This bitter medicine for the Brazilian people was, however, a tonic for foreign investors. In the first eight months of the year, even though the economy remained depressed, Brazilian stocks soared by over 58 per cent, prompting *Business Week* to advise speculative investors: “Don’t leave this party yet”² (*Business Week*, 2003: 63). As for Lula, he faced mounting criticism from within his own Workers’ Party and governing coalition as well as from ordinary voters; only 28 per cent of the population voicing support for his government (Smith, 2004). In other words, even before the current crisis stemming from corruption among Lula’s closest advisers, the government was already in trouble owing to its adoption of contractionary policies.

Reversal of the third wave of democratization now looms as a threat throughout Latin America, where a poll conducted by the United Nations Development Program in 2004 that showed that 54.7 per cent of Latin Americans polled said they would support authoritarian regimes over democracy if the shift would resolve their economic woes (Diamond, 2001: 358).

In South Asia reversal of the third wave is already a reality. When Gen. Pervez Musharraf seized power in Pakistan in October

1 See, among others, Geisa (2002: 5-33); also Haggard and Kaufman (1995: 193-196, 209-211).

2 See also Burbach (2004).

1999, and sent the Prime Minister Nawaz Sharif packing, he ended 11 years of unstable democracy. So worrisome to many orthodox students of democracy was Pakistan's democratic breakdown that analyst Larry Diamond wrote: "Pakistan [may] not be the the last high-profile country to suffer a breakdown of democracy. Indeed, if there is a 'third reverse wave', its origin may well be dated to 12 October 1999" (Kemal, 2001).

Post-mortems of Pakistan's parliamentary democracy tend to focus on corruption, collapse of the rule of law, ethnic and religious polarization, and economic failure. Other explanations center on an unaccountable military that had enjoyed special relations with the Pentagon owing to its key role in driving the Russians out of Afghanistan. Certainly, all this played a part. But also crucial was the role played by the IMF and World Bank, which pushed the democratic regimes of both Benazir Bhutto and Nawaz Sharif to impose stabilization and structural adjustment programs that contributed significantly to the rise of poverty and inequality as well as fall in the growth rate. (13) Noted one eminent Pakistani economist: "The almost obsessive concern with short-term macroeconomic stabilization has with it the danger [...] that some of our basic social programs might be affected, and this would have inter-generational consequences on development in Pakistan" (Shore, 1999). Since democracy became associated with a rise in poverty and economic stagnation, it is not surprising that the coup was viewed with relief by most Pakistanis, from both the middle classes and the working masses.

THE CHALLENGE

In a recent essay, the philosopher Richard Rorty sketches a bleak dystopian portrait of where Western democracy is headed:

At the end of this process of erosion, democracy would have been replaced by something quite different. This would probably be neither military dictatorship nor Orwellian totalitarianism, but rather a relatively benevolent despotism, imposed by what would gradually become a hereditary nomenklatura.

That sort of power structure survived the end of the Soviet Union and is now resolidifying under Putin and his fellow KGB alumni. The same structure seems to be taking shape in China and in Southeast Asia. In countries run in this way, public opinion does not greatly matter. Elections may still be held, but opposition parties are now allowed to pose any serious threat to the powers that be. Careers are less open to talent, and more dependent on connections with powerful persons. Since the courts and police review boards are relatively powerless, it is often necessary for shopkeepers to pay protection money to the police,

or to criminals tolerated by the police, in order to stay in business. It is dangerous for citizens to complain about corruption about the abuse of power by public officials. High culture is restricted to areas that are irrelevant to politics [...] No more uncensored media. No more student demonstrations. Not much in the way of civil society. In short, a return to the Ancien Regime, with the national security establishment of each country playing the role of court in Versailles. (Rorty, 2004).

This dark vision may not yet be applicable to western democracies, though some of my friends claim it is a perfect portrayal of Washington under the Bush regime. It is, however, a credible end point if the forces that are eviscerating democracy are not subdued. This is not an unfamiliar vision. At the turn of the 20th century, Max Weber referred to the “iron cage” of bureaucratization and Robert Michels called attention to the “iron law of oligarchy”. Today, the “iron cage” is being forged by a number of forces: bureaucratic centralization that has run out of control, the drive of a national security establishment playing on terrorist fears, corporate concentration and control of production and markets. In the case of the third world, one must add to this brew the draconian policies of powerful multilateral institutions and the systematic subversion of democratic mechanisms by local elites to gain a comprehensive picture of the threats that are strangling democracy globally.

To respond to these threats we very badly need first of all a reconceptualization or fundamental revisioning of democracy at various levels. Too long have we identified democracy with elections, so that once we had trooped to the polls and elected the people and party of our choice, we considered our democratic responsibilities fulfilled. Today, more than ever, today, Rousseau’s warning about representative systems being corrupted so that they generate the corporate will of the representatives rather than the general will of the represented remains very relevant. Today more than ever, Michels’ warning about elections becoming less a question of the people freely choosing their representatives than their so-called representatives using elections to maintain themselves in office rings true. Moving on boldly to innovate more direct and participatory methods of democratic governance is one of the key challenges facing all of us, and here the anti-globalization movement with its emphasis of direct democratic methods of decisionmaking can be of great assistance to us.

Then there is the challenge of how to restore equality as one of the key dimensions of democracy. We can no longer pretend that a functioning democracy can be sustained when there is a formal equality of citizens but there are very real and large inequalities of wealth among them. We have seen both in the United States and in the developing

world the systematic perversion of democracy at every turn by money and wealth. Campaign finance reform is only a first step in reversing this trend. In my view, strengthening democracy is inseparable from achieving a more equitable distribution of assets and income—meaning reversing the spontaneous drive of the market to create and perpetuate inequalities. The disembedding of the market from society, to borrow an image from the great Hungarian scholar Karl Polanyi, in the name of efficiency and prosperity has been the greatest creator of inequality, the greatest subverter of democratic legitimacy in the last quarter of a century. We have relearned the hard way what we have been taught by the classic theorists of democracy—that you cannot divorce equality from democracy. We have learned the hard way that, contrary to Milton Friedman’s classic dictum, market freedom translates to more freedom for corporations and more unfreedom for citizens. We must understand that the *modus vivendi* between democracy and capitalism called Lockean democracy has long been dysfunctional, and that to survive, contemporary democracy must break out of the rigid Lockean shell that now imprisons it.

We must, above all, face the fact that capitalism and democratic deepening are no longer compatible, and that the challenge lies in the nature and degree of the restraints that we put on the market while we restructure the system of production and consumption around the satisfaction of the needs of people and the community rather than profitability. Call this participatory economics, social democracy, people’s economics, or socialism—what is essential is that the market be drastically re-embedded in society, subject to the primordial human values of community, justice, equality, and solidarity.

Then, finally, there is the challenge of reining in the big bureaucracies which have come to view themselves as above democratic politics. There are the corporate elites that say that achieving efficiency in production and distribution can only be achieved through hierarchical control—that democracy has to do strictly with political representation but stops at the realm of production; the technocratic elites that say that management of the modern state and economy is too complex for ordinary citizens and must be left to the experts; the national security elites that say that the exigencies of providing national security and carrying out contemporary warfare involving split-second decisions necessitate a limitation of the classical freedoms of an earlier era and insulation of the national security establishment from what they disdainfully regard as the “vagaries” of civilian democratic politics. What is insidious about the behavior of these elites is that even as they quietly maintain that a technocratic centralization is the imperative of modern societies and that democratic practice must adjust this fact

of life, they opportunistically use the slogan of limiting and reducing government to hide their technocratic agenda. I am of course speaking about the most influential sectors of the Republican Party of the US, who cleverly use the Christian Right and the Cato Institute small government types as canon fodder to advance their program of conservative centralization.

Let me end by saying that with democracy facing a crisis globally, we cannot approach the problem as if it were simply one of tinkering with processes that are essentially sound and simply need sorting out. We are being faced with the classical questions of democratic theory, the fundamental questions, to which we must frame ideas and institutional solutions appropriate for the times. We must grasp and face with courage the full dimensions of the threat posed to democracy, for it is our ability to confront them that will provide the answer to the question of whether the global democratic revolution will deepen or it will become a thing of the past, leaving future historians, as Rorty puts it, with the puzzle why the golden age of democracy, like the age of the Antonines, lasted only about two hundred years.

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VIRGINIA A. MIRALAO*

**GLOBALIZATION, DEMOCRACY AND
DEVELOPMENT: SOME ASIAN PATTERNS
AND THE PHILIPPINES' EXPERIENCE**

I CONSIDER IT a rare honor and privilege to participate in this South-South workshop. The great distance that separates our continents prevents us from engaging in as much dialogue and exchange as we probably should and reflect better on the social and intellectual issues facing our countries whether in Latin America, Africa, or Asia. I hope I can do justice to representing an Asian perspective in this workshop but let me say at the outset that the workshop topic itself is quite vast and the Asian region is so diverse that it is not easy to capture and much less to generalize about Asia's experience on the topic at hand.

But allow me to begin first with a few observations about the workshop theme –globalization, democracy and development–, and then proceed to describing some of the patterns regarding these processes as they have unfolded or are unfolding in countries of our (Asian) region. I end my presentation with a somewhat more focused examination of the impact of globalization on the educational profiles of Filipinos and on the nature of their employment and thereby, on the Philippines current state of development.

**GENERAL OBSERVATIONS: GLOBALIZATION, DEMOCRACY
AND DEVELOPMENT**

Most countries and most peoples desire democracy and development. Democratic tendencies or the yearning for freedom are human and

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universal, as are development aspirations to be lifted up from economic backwardness and material want. Beyond these general tendencies and aspirations however, countries differ considerably in their notions and/or concepts of what is democracy and what is development and hence, also in the manner they pursue and express these within their borders. One recalls for example, that some years back, the then Singapore Prime Minister Lee Kuan Yew forcefully argued that Asian democracies should not be judged by Western values and standards of democracy (which put a premium on personal freedoms) as the region embodies Asian values quite different from the West (e.g., as communitarianism and respect for and deference to government authority). Likewise, countries differ in the importance they put on the preservation of their national cultures and identities while in the process of development, with many adhering to the view that economic progress which erodes native cultures and values or which does not address issues of poverty and social justice is not development at all.

Along with the country-to-country differences and ambiguities in prevailing notions and expressions of democracy and development, is also the tension between the pursuit of democracy and development. In many countries, practices and measures taken to uphold and/or advance democracy do not always redound to development or to the good of the national economy. Some other countries on the other hand, have found it more expedient to put a cap on the so-called “democratic freedoms” while aggressively pushing measures for economic growth and development.

Globalization –taken to mean the complex of changes occurring today owing to improved travel and communications technology and giving rise to transnational flows of goods, services, people, and capital–has opened new spaces for the exchange of local, national and regional experiences and ideas on democracy, development and related social processes beyond the conventional structures and relations set up by governments/nation-states. All these in turn are engendering an ethos of freedom and mobility among countries worldwide, and are exerting pressure on nation-states to open up and liberalize their economic and political systems. Here, we note that given their unique histories and cultures and varying temperaments and circumstances, countries respond differently to globalization pressures and influences.

SOME PATTERNS OF DEMOCRACY AND DEVELOPMENT EXPERIENCES IN ASIAN COUNTRIES

Bearing in mind the general observations above, I now turn to some of the patterns that have been cited on how Asian countries have pursued and/or managed their national development objectives as well as their political systems and democracy/democratization goals.

One pattern is exemplified by India and the Philippines, the earliest countries in the region that gained independence from colonial rule and embraced republicanism upon independence. India is reputed as the world's "largest democracy" being the most populous country with a working parliamentary system, while the Philippines too is seen as displaying unique "democratic characteristics", e.g., exhibiting the "freest" press in Asia and being the first country ever to topple a dictatorship by "people power". Both India and the Philippines have pursued national economic development within the framework of their respective constitutions and have chosen a democratic path to development. In previous decades however, both countries were better known for their high rates of poverty and glaring social and economic inequalities that for their economic performance. But recent developments show that India and the Philippines are now benefiting economically from globalization. India in particular is being hailed (together with China) as the world's next economic giant, while the Philippine economy appears to be picking up, growing at higher rates than previously.

Another pattern emerges from the experience of Singapore, Malaysia, South Korea and Taiwan (and to some extent also Thailand). These countries of the region hold the distinction of having rapidly modernized their economies over the last 35 to 40 years and liberated vast numbers of their populations from poverty, under one-party or military government or political system that were less than democratic. Some have pointed to the economic miracle of these countries as countering the liberal notion that rapid economic growth is possible only in a liberal democratic environment, with others in fact arguing that the limitations imposed on individual freedoms and civil rights by authoritarian regimes greatly aided the economic transformation of these countries.

Still another pattern is shown by China and Vietnam, two of the three countries in the region (the third being India) which are making dramatic entries and advances into the global economy or the world market. Both China and Vietnam remain politically communist and continue to curtail individual freedoms but have liberalized and opened up their economies to market forces. Both countries currently exhibit the highest annual GDP growth rates in the region (around 10% for China and 8% for Vietnam in 2005).

In general, country experiences in the region lend support to the proposition that the opening up of national economies to global market forces (through trade liberalization, privatization, opening up of capital accounts, etc.) puts pressure on societies to also liberalize their political systems. Democracy movements pressing for greater freedoms and various human rights therefore, have sprung up in an increasing number

of Asian countries. In recent years, democracy movements have openly erupted into street protests and demonstrations even in Communist China and in other places as South Korea, Taiwan, Thailand and Indonesia.

Finally, it is interesting to note that the Association of Southeast Asian Nations (ASEAN) as a regional body composed of 10 countries in the region has been exerting pressure on its members to democratize and pursue free market policies and reforms. Even as ASEAN upholds the principle of non-interference with regard its members' own internal affairs, the alliance is in the process of including in its charter the establishment of a human rights commission for its members. ASEAN, of course, has been more aggressive in pursuing its economic goal of regional integration -and forming itself into a single market and investment and production base- to then negotiate better as a block vis-à-vis China, India, Japan, and other trading partners. For the most part, ASEAN members have moved in concert along economic and political liberalization lines but to date, the alliance has not been as successful in enjoining fellow-members, like Myanmar, to democratize and allow its citizens greater political freedoms.

GLOBALIZATION AND PHILIPPINE DEMOCRACY AND DEVELOPMENT

Against the foregoing regional background, I thought of examining more closely the impact of globalization on the Philippines' attainment of its avowed democratic and development goals and ideals, specifically by looking into how ongoing globalization forces are impinging on the country's employment structure and on the educational profiles of Filipinos.

It should be mentioned that since the mid-1990s, under its last three Presidents, the Philippines has been trying to open up its economy and pursue various "free market" reforms as well as sociopolitical ones, to make the country so-called "globally competitive" (as a place of investments, a trading partner, a supplier of quality goods and services, a tourist destination etc.). It has not been very successful however, in attaining rapid economic growth, and although some observers now think that the Philippines is poised for an economic take-off (and many hope, also for sustainable growth), it continues to grapple with significant problems of poverty and social inequalities. These problems, which have historically beset the Philippines, are also at the root of the country's two major insurgency movements (the communist insurgency led by the New People's Army and the Moro National Liberation Front in Muslim Mindanao) and which are the longest running insurgencies in Asia. Issues arising from the economic divide between the rich and the poor and between the country's major cities and its regions likewise

continue to be used or exploited by military adventurists, politicians, and other groups opposed to government to topple it.

But because Philippine democracy –considered to be among the region’s freest– has had a long history of allowing and upholding human freedoms and civil liberties, it has not been easy for the country’s national leadership to resort to autocratic rule in order to quash insurgencies, and more single mindedly pursue national development goals. Consequently, the Philippine government, then as now, has had to deal with threats to itself and to national political stability. In turn, this lack of political stability is known to have stymied national efforts at economic development and related measures for addressing the country’s poverty and inequality problems. Seen this way, the Philippines desire to consolidate its democratic elements and strengthen its democratic tradition *and* to develop economically and equitably, have remained rather elusive goals.

An examination therefore of some of the employment and education-related data from recent rounds of the country’s Labor Force Surveys (LFS) and Family Income and Expenditure Surveys (FIES) may help us gauge how the Philippines is progressing towards becoming more economically vibrant and egalitarian and more politically stable and democratic.

The employment data in Table 1 are taken from the January 2001 Labour Force Survey (LFS) and are presented by sector or type of industry (e.g. agriculture, fishing and forestry; industry; and services) and by cohort or the decade when members of the labor force were born. One can look at the members of each cohort (e.g., those born in the 1930s vs. those born in the 1960s) as mirroring their time and thus embodying unique histories and biographies. Comparing the employment profiles of older cohorts with those of younger ones should provide us a sense of how the Philippine economy has shifted over time, from being more agrarian and rural-based to being more industrial and modern. Moreover, data on the employment profile of the youngest cohort –those born in the 1970s and aged 22 to 31 years at the time of the survey in January 2001– may be taken to reflect in part current-day globalization influences on employment and the economy.

As expected, we note from Table 1 a significant drop in the proportion of the labor force engaged in agriculture and a shift of the country’s employment structure to the industry and services sectors over time. While the majority (53%) of older workers (or those born in the 1930s) were engaged in agriculture, fishing and forestry work in 2001, only around a fourth (21.8%) of their youngest counterparts (those born in the 1970s) were in similar work. Most of this latter group (56.4% of them) had found employment in industry or services.

Table 1
Philippines: Employed by Decade Born Industry*

INDUSTRY	30s	40s	50s	60s	70s	NUMBER
<i>Unemployed</i>	6.1	8.2	5.7	7.6	17.7	2,874,737
Not Elsewhere Classified	1.6	2.4	3.0	3.2	4.0	8,050
<i>Agriculture, Fishery and Forestry</i>	53.2	37.7	32.6	29.0	21.8	9,015,838
Mining and Quarrying	0.2	0.4	0.5	0.4	0.3	113,445
Manufacturing	5.7	7.0	8.6	9.9	11.8	2,704,601
Utilities	0.1	0.4	0.5	0.5	0.3	112,652
Construction	2.1	3.9	5.7	6.4	5.4	1,509,187
<i>Industry</i>	8.1	11.6	15.3	17.2	17.9	4,439,885
Wholesale and Retail Trade	17.6	17.2	17.1	16.7	14.6	4,728,589
Transportation, Storage, and Communications	2.2	5.4	7.5	8.5	7.5	2,028,137
Finance, Real Estate, and Business Services	1.7	1.5	2.5	2.9	3.8	800,586
Community, Social, and Personal Services	9.4	15.9	16.2	14.9	12.6	5,007,579
<i>Services</i>	30.9	40.1	43.4	43.0	38.5	12,564,891
Absolute Number	2,547,362	4,103,082	6,630,643	7,585,226	8,037,086	28,903,401

Source: Labor force Survey January 2001

*Includes those born before 1980 only.

That the modernization of the Philippine economy favored more the non-poor than the poor is also readily supported by the data in Tables 2 and 3. Among the non-poor (defined as those belonging to families in the top seven income deciles), the shift in the labor force from agrarian to modern occurred more rapidly than in the general population. By 2001, only some 12.3 percent of the youngest cohort of the non-poor (aged 22 to 31 years) remained in agriculture, with over two-thirds (or 68.7%) of them having found jobs in industry or the services sector. In contrast, among the non-poor (defined as belonging to the lowest 30 income percentiles), the majority of the youngest cohort (53.8%) continued to be found in agriculture, fishing and forestry, with only about a third (33.7%) finding jobs in the modern sector. Further comparing the non-poor and the poor, we

note that the latter consistently exhibits lower unemployment rates across cohorts, testifying to the poor classes' greater need for income and for work.

Table 2
Philippines Non-Poor: Employed by Decade Born Industry***

INDUSTRY	30s	40s	50s	60s	70s	NUMBER
<i>Unemployed</i>	6.2	8.9	6.3	8.6	19.0	2,296,733
Not Elsewhere Classified	0.1	0.0	0.1	0.0	0.0	7,539
<i>Agriculture, Fishery and Forestry</i>	45.3	26.7	19.6	16.0	12.3	4,128,943
Mining and Quarrying	0.2	0.4	0.6	0.5	0.3	83,021
Manufacturing	5.7	7.7	9.7	11.9	13.7	2,254,893
Utilities	0.1	0.5	0.7	0.7	0.4	106,166
Construction	2.3	4.2	6.1	6.4	5.8	1,147,482
<i>Industry</i>	8.4	12.8	17.0	19.6	20.2	3,591,561
Wholesale and Retail Trade	21.7	20.3	20.6	19.4	16.2	3,973,263
Transportation, Storage, and Communications	2.7	6.6	9.1	10.1	8.1	1,699,530
Finance, Real Estate, and Business Services	2.3	1.9	3.3	3.9	4.8	754,860
Community, Social, and Personal Services	13.4	22.7	24.0	22.4	19.4	4,407,352
<i>Services</i>	40.1	51.6	57.0	55.8	48.5	10,835,005
Absolute Number	1,797,199	3,038,789	4,633,464	5,201,428	6,188,899	20,859,780

Source: Labor force Survey January 2001 and FIES 2000

*Includes those born before 1980 only

**Poor is defined as belonging to the bottom 30 percent of the families in terms of per capita income.

The transformation of the employment structure expectedly came with related improvements in the educational attainment of Filipinos, generally demonstrating the relationship between higher levels of skills, knowledge and education with modern- sector jobs. Mirroring the changes in the country's employment structure, Tables 3, 4 and 5 reveal substantial improvements in educational profiles between the older cohort of workers and their younger counterparts. Of those in the labor force, fewer than 10% of the generation of the 1930s had attained some or completed a college education. Among the youngest 1970s generation on the other hand, the proportion reaching college had quadrupled to 38.4%.

Table 3
 Philippines Poor: Employed by Decade Born Industry^{**}

INDUSTRY	30s	40s	50s	60s	70s	NUMBER
Unemployed	6.0	6.0	4.4	5.5	13.4	578,004
Not Elsewhere Classified	0.0	0.0	0.0	0.0	0.0	511
Agriculture, Fishery and Forestry	72.3	69.0	62.7	57.2	53.8	4,886,895
Mining and Quarrying	0.2	0.3	0.4	0.4	0.5	30,424
Manufacturing	5.7	5.0	6.2	5.3	5.6	449,708
Utilities	0.0	0.1	0.0	0.1	0.1	6,487
Construction	1.6	2.9	4.7	6.2	4.1	361,705
Industry	7.5	8.3	11.3	12.0	10.3	848,324
Wholesale and Retail Trade	7.9	8.4	9.0	10.7	9.2	755,326
Transportation, Storage, and Communications	0.8	2.0	3.9	5.1	5.5	328,607
Finance, Real Estate, and Business Services	0.4	0.3	0.6	0.6	0.7	45,726
Community, Social, and Personal Services	5.1	5.9	8.0	8.8	7.0	600,227
Services	14.1	16.6	21.6	25.3	22.4	1,729,886
Absolute Number	750,163	1,064,293	1,997,179	2,383,798	1,848,187	8,043,365

Source: Labor force Survey January 2001 and FIES 2000

*Includes those born before 1980 only

**Poor is defined as belonging to the bottom 30 percent of the families in terms of per capita income

Again, the improvements in educational levels are most marked among the non-poor. By January 2001, closer to half (46.3%) of the youngest cohort of workers had gone to college as against a much lower 11.6 percent of their poor counterparts. Hence, owing to their much improved educational backgrounds, younger people from the non-poor classes are obviously in a much better position to seize the job opportunities brought about by modernization and further opened up by globalization. In contrast, with only 0.9 percent to 11.6 percent of poor workers of all ages attaining some college education, the poor cannot benefit equally since their lack of skills and education prevents them from competing for the better-paying occupations in the job market.

Table 4
Philippines: Labor Force by Decade Born by Highest Educational Attainment*

Highest Grade Completed	30s	40s	50s	60s	70s	Number
No Schooling	10.0	4.3	2.2	1.6	1.3	802,625
Elementary						
Undergraduate	39.2	25.9	17.6	12.3	8.9	4,877,362
Elementary Graduate	23.5	26.2	22.6	17.0	11.7	5,400,874
High School						
Undergraduate	8.4	9.1	11.9	13.0	12.5	3,374,276
High School Graduate	9.2	14.3	21.2	26.1	27.2	6,394,470
College Undergraduate	3.7	7.8	11.3	14.6	17.5	3,676,261
College Graduate	5.9	12.3	13.2	15.4	20.9	4,373,963
(not classified)	0.0	0.0	0.0	0.0	0.0	3,570
Total	2,547,362	4,103,082	6,630,643	7,585,226	8,037,086	28,903,401

Source: Labor force Survey January 2001

*Includes those born before 1980 only

Table 5
Philippines: Philippines Non-Poor: Labor Force by Decade Born by Highest Educational Attainment*

Highest Grade Completed	30s	40s	50s	60s	70s	Number
No Schooling	6.8	2.1	1.0	0.7	0.7	309,731
Elementary						
Undergraduate	34.3	19.6	9.9	6.1	4.5	2,269,281
Elementary Graduate	25.0	25.5	19.1	12.6	8.6	3,298,272
High School						
Undergraduate	9.4	9.3	11.7	10.9	10.9	2,236,892
High School Graduate	11.3	17.0	25.0	29.2	28.9	5,187,777
College Undergraduate	5.0	9.9	14.8	18.7	20.3	3,306,647
College Graduate	8.2	16.5	18.5	21.7	26.0	4,247,610
(not classified)	0.0	0.0	0.0	0.0	0.0	3,570
	1,797,199	3,038,789	4,633,464	5,201,428	6,188,899	20,859,780

Source: Labor force Survey January 2001 and FIES 2000

*Includes those born before 1980 only.

Given the foregoing trends in 2001, there are reasons to expect that ongoing globalization influences on employment and education may

be further worsening the state of the Philippine socioeconomic inequalities in the post 2001 period. This is so because at present, the occupational category that is registering dramatic increases in employment is that of “financial, real estate and business services” as a result of the great demand for call center services and employees in the Philippines. While there were only four call centers operating in the country in 2003 and employing some 2,000 workers, the industry has since grown phenomenally to more than 100 call centers in 2006 employing 200,000 personnel.

Seeing the potential of this “sunrise industry”, the private sector and the government are now devising and fast-tracking programs to increase the Philippines’ competitiveness in call center and business process outsourcing (BPO) operations. To push the industry forward, local and foreign businesses and investors and government are moving to expand IT outsourcing jobs to beyond the usual customer care and medical transcription services being done in the country at present, to include other IT work in administration, accounting and finance, and human resources and consulting work for various commercial firms and government clients. The next few years therefore will likely witness a surge in employment opportunities for Filipinos in IT-enabled services which in turn are known to require not only a college degree but high levels of proficiency in English (and other foreign languages) and computer operations.

The bright job prospects in IT work then, will once more favor (younger) Filipinos from richer or non-poor households who are able to obtain college degrees and train in the skills required by call centers and BPOs. With less than a college education, most of the poor will not be able to penetrate this sector and benefit from global IT outsourcing businesses. Already, in 2001, a full 50 percent of employees in the “finance, real estate and business services” category to which call centers and BPOs belong, were college graduates - making this employment category the most demanding of education and skills preparation.

The other employment area in the Philippines that has been affected most by globalization developments is overseas work/employment, statistics of which are maintained separately from those of the national/domestic labor force. As is widely known, the Philippines is one of the world’s largest exporter of labor and in 2005, close to 8 million Filipinos were estimated to be working/living overseas. The predilection of Filipinos to work abroad has its roots in the country’s migration history which began 100 years ago and which peaked in the 1960s as a result of the liberalization of US immigration laws, and then again in the 1980s, following the construction and development boom in the Middle East. Since then, there has been no let up in the numbers of Filipinos leaving the country for temporary or permanent work abroad.

The continuing demand for foreign workers in the world (particularly among developed countries, the Middle East and rapidly industrializing China) has also diversified Filipino overseas labor migration, so that today, Filipino workers and immigrants are found in all world regions (from Africa to Oceania) and in almost all countries. In terms of occupations too, while waves of Filipino worker migration earlier consisted of agricultural and plantation workers to Hawaii and the US West Coast, nurses and doctors to the US, maids and entertainment workers to Hong Kong and Japan, and construction and domestic workers to the Middle East, recent waves include not only all these, but increasingly also computer programmers, pilots, sales and marketing people, managers, teachers, accountants and other professionals. One notes that this diversification trend also suggests that overseas employment, very much like employment in call centers and BPOs in the country is becoming more selective of Filipinos with high educational attainment.

That such is the case can be seen from the data in Tables 6 and 7 which show that the job requirements for overseas employment favor the younger cohorts (i.e., those born in the 1960s and 1970s) and those with higher educational attainments (at least a high school graduate but more often, a college graduate). It is of course the younger cohorts who also exhibit the highest educational attainments and so they are the most ready and able to migrate. More than two-thirds of the youngest (1970s) generation of Filipino overseas workers have attained some college education or graduated from college.

Table 8
Overseas Contract Workers by Decade Born*

Decade born	No.	% share
30s	15,219	1.4
40s	71,300	6.6
50s	255,694	23.7
60s	375,145	34.7
70s	363,678	33.6
Total	1,081,036	100.0

Source: Labor Force Survey January 2001

*Includes those born before 1980 only

**The figures do not include permanent emigrants,

***Tan (2006) puts the figures of temporary overseas workers at

4.5 M which is a way above the figure here from the LFS.

Table 9
Overseas Contract Worker by Decade Born by Highest Educational Attainment

Highest Grade Completed	30s	40s	50s	60s	70s	Total
No Schooling	1.5	0.0	0.1	0.2	0.1	0.1
Elementary Undergraduate	0.8	1.5	1.6	1.0	0.3	0.9
Elementary Graduate	28.2	8.9	4.9	3.1	2.3	4.0
High School Undergraduate	0.0	5.3	5.2	6.3	4.5	5.3
High School Graduate	41.3	29.9	30.6	27.2	24.5	27.5
College Undergraduate	4.7	20.4	27.1	28.4	30.4	27.9
College Graduate	23.5	34.1	30.5	33.7	38.0	34.3
(not classified)	0.0	0.0	0.0	0.1	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labor force Survey January 2001

*Includes those born before 1980 only

Table 10
Overseas Contract Workers by Poverty Status by Highest Educational Attainment

Highest Grade Completed	Poor	% share	Non-poor	%share	No.	% share
No Schooling	1,002	2.6	1,036	0.1	2,038	0.2
Elementary Undergraduate	3,768	9.7	9,077	0.9	12,845	1.2
Elementary Graduate	3,589	9.3	39,829	3.8	43,418	4.0
High School Undergraduate	5,500	14.2	56,941	5.5	62,441	5.8
High School Graduate	11,303	29.2	283,246	27.2	294,549	27.2
College Undergraduate	9,506	24.6	291,704	28.0	301,210	27.9
College Graduate	4,030	10.4	360,181	34.6	364,212	33.7
(not classified)	0	0.0	323	0.0	323	0.0
Total	38,698	100.0	1,042,338	100.0	1,081,036	100.0
% share in total migrant workers	3.6		96.4		100.0	

Source: Labor force Survey January 2001

*Includes those born before 1980 only

Since overseas work is selective of those with much education and skills, it is also not surprising that the country's overseas contract workers disproportionately come from families that are not poor. Table 7 shows the educational profile of Filipino overseas workers to be

much better than the national education profile of Filipino in-country workers cohort by cohort; and Table 8 shows that only a minimal 3.6 percent of overseas contract workers come from poor families (or the bottom 30% income-wise) while the overwhelming 96.4 percent majority are from non-poor families.

Income from overseas worker remittances has been increasing (amounting to some \$10.7 billion or the equivalent of half the national budget in 2005) but they evidently go to non-poor families. Remittances from overseas employment therefore cannot be expected to alleviate the poverty conditions in the country, and this in fact, may be exacerbating existing socioeconomic inequalities.

In summary, this brief look into the impact of globalization on Philippine development and democracy reveals emerging trends that seem to be uplifting the national economy, although not always in ways that also adequately address issues on poverty and inequalities. As mentioned earlier, these issues along with bureaucratic ineptitude, poor governance, and graft and corruption, have historically threatened democratic practices and institutions in the Philippines.

Nonetheless, after years of economic stagnation and uncertainty since the Martial Law years in the 1980s, the Philippines' currently improving prospects for economic recovery and sustained growth may yet help the country solve its age-old economic and political problems. At this point, the national effort should perhaps focus on:

- raising further the economic growth rate beyond the 4% to 5% per annum mark and sustaining higher rates of growth in coming years. For economic growth to contribute to poverty reduction, the experience in other Asian countries indicates that annual growth rates in GNP should be in the order of 8 or more percent;
- mobilizing the new income or wealth that is created (e.g. as improving worker income and remittances from among the non-poor classes of Philippine society) for raising savings and investments rates and supporting businesses and enterprises that can generate new and additional jobs for those at the bottom of the social hierarchy;
- and aggressively pursuing social and economic programs and affirmative actions in favor of the poor, as among others, and investing more in agricultural-rural infrastructure and development will generate more jobs and livelihood opportunities in agriculture and the countryside where the poor are found. In-

vesting more in programs and/or areas to improve the access of children and the youth from poorer families to basic education and to other forms of training will also improve their ability to land jobs and compete in the labor market.

UTSA PATNAIK*

THEORIZING POVERTY AND FOOD SECURITY IN THE ERA OF ECONOMIC REFORMS

INTRODUCTION

The correct theorizing of the questions of food security and poverty has become particularly important at the present time, which is one of rapid changes in the economic environment in which small producers including farmers and workers are living. In a poor developing country, the incidence of poverty is very closely linked to the availability of food, in which the staple food grains still remain predominant, accounting for three-fifths of the daily energy intake of the population. The measurement of poverty in India has traditionally adopted a nutritional norm specified in terms of an average daily energy intake measured in calories. The National Nutrition Monitoring Bureau has informed us that

the NNMB has consistently confirmed in successive surveys that the main bottleneck in the dietaries of even the poorest Indians is energy and not protein as was hitherto believed... the data also indicates that the measurement of consumption of cereals can be used as a proxy for total energy intake. This observation is of considerable signifi-

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cance as it helps to determine rapid, though approximate, estimates of energy intake at the household level (National Nutrition Monitoring Bureau, 1997).

It is this strong link between the staple food grains intake and poverty based on a nutritional norm, which enables us to put forward an analysis of the recent trends in food security and in poverty, in the light of the impact of changing economic policies during the last fifteen years.

The majority of academics and the Government of India today make two claims which I believe to be factually incorrect, claims which are underpinned by a wholly fallacious theoretical understanding of the current situation. They claim first, that there is 'over supply' of food grains relative to demand, (which they assume to be growing normally) and so infer that food grains production should be cut back in favour of 'diversification'; second, that poverty has been declining in India in the era of reforms, specifically in the 1990s. My contention as regards both propositions is that they are incorrect, and that the correct position on theoretical and factual grounds is precisely the opposite. First, there is not over supply of food grains, but a decline in food grain supply and an even more drastic decline of effective demand for food grains especially in rural India owing to an abnormally fast loss of purchasing power during the last six years: so, far from cutting back food grain output, the correct policy is to raise purchasing power and restore effective demand as well as restore access to affordable food grains through a combination of a universal, and non targeted, employment guarantee scheme and through reverting to a universal, non targeted public distribution system.

Second, far from the percentage of population in poverty declining as claimed, the factually correct position on the basis of current data is that poverty is very high, affecting at least three-quarters of rural and over two-fifths of the urban population. Moreover the data shows that the depth of poverty has increased considerably during the fifteen years of reforms, with more people being pushed down into a poorer nutritional status than before in most of the Indian states and at the All-India level. The reason that many academics and the Planning Commission reach the conclusion that poverty is declining, is that they use an estimation procedure which has no basis on logic and is indefensible on academic grounds. What that estimation procedure is and how it differs from the correct procedure is one of the main questions I would try to explain, for I believe that it is part of the 'right to information' that the intelligent citizen should be able to independently reach a judgement about the validity of the official procedure and not simply take the truth of certain statements for granted. Thus

I will focus on the correct theorizing of these two main questions –of declining effective demand for food grains, and of the extent of poverty. This has become extremely important because the widely prevalent incorrect theorizing in academic and government circles is leading to policy formulations and measures which will only serve to worsen mass welfare and plunge even larger sections of the rural population in particular into higher unemployment and food deprivation.

The first and second sections will briefly discuss the deflationary macroeconomic policies combined with exposure to global price declines, which has led to massive loss of purchasing power in rural India in the last six years and is reflected in falling food grains absorption and falling energy intake. The third section discusses the interpretation of the decline in food grain absorption while the fourth and last section takes up the question of poverty estimation and how official and most academic estimates use a particular indirect method of estimation, which completely de-links poverty from nutrition norms by ignoring current data which show the reality of rising nutritional deprivation and increasing depth of poverty.

WHAT DEFLATIONARY POLICIES AND TRADE LIBERALIZATION HAVE MEANT FOR THE RURAL ECONOMY IN INDIA

Deflationary macroeconomic policies are strongly favoured by international and domestic financial interest groups who are quite obsessive about controlling inflation and would prefer to see even an economy with a high rate of unemployment, growing slowly and raising unemployment further, rather than risk any possibility of prices rising owing to expansionary policies reducing unemployment. International creditors wish to maintain high real values of their financial assets and high real interest rates (inflation would erode both) - and are happy with bouts of asset deflation in developing countries so that these assets can be snapped up at low prices by their corporations. Their insensate and obsessive fear of inflation can be seen in the policies advised uniformly by the International Monetary Fund to 78 developing countries in the 1980s and summarized in Table 1 from an IMF study. The first three policies –restraint on central government expenditure, limits on credit expansion, and reduction of budget deficit to GDP ratio, add up to a strongly deflationary package and all three were actually implemented at the same time by four-fifths of the countries concerned, while two-thirds capped wages and over half devalued their currency.

The results of deflationary policies of the decade up to the mid-1980s have been documented as sharp decline in rates of investment in both capital formation and in the social sectors, leading to reduced or negative GDP growth and negative impact on the human develop-

ment indicators (see in particular Cornia, Jolly and Stewart, 1987). A number of studies since then have confirmed the adverse impact and have argued for expansionary policies (Baker, Epstein and Pollin, 1998; Halevy and Fontaine, 1998; Patnaik, 2000).

Table 1
Policies Followed by 78 countries under Fund-guided Economic Reforms

	Percentage of Total Number of Countries Implementing Policy
Restraint on Central Government Expenditure	91
Limits on Credit Expansion	99
Reduction in Ratio of Budget Deficit to GDP	83
Wage Restraint	65
Exchange Rate Policy	54

Source: IMF study quoted in Cornia, Jolly and Stewart (eds) *Adjustment with a Human Face 1987*, Vol..1, p.11.

Table 2
Reduction in Rural Development Expenditures under Economic Reforms, Selected Years 1985–90 to 2000–01

	1985-90	1993-4	1995-6	1997-8	2000-1
1.Rural Development Expenditures as Percent of NNP	3.8	2.8	2.6	2.3	1.9
2.Above plus Infrastructure	11.1	8.4	6.9	6.4	5.8

Source: Government of India, Ministry of Finance, annual *Economic Survey*, for years 2001–02 to 2003–04, Appendix Table S-44. 'Rural development expenditures' here are the plan outlays of Centre and states under the five heads of agriculture, rural development, irrigation and flood control, special areas programmes, and village and small scale industry. Infrastructure includes all energy and transport including urban. Calculated from current values of expenditure and NNP at factor cost.

India has been following exactly the same deflationary package of policies since 1991, whose impact has been especially severe in India's agricultural sector which saw sharp reduction in planned public development expenditures in rural areas, which has traditionally included agriculture, rural development, irrigation and flood control –all vital for maintaining output– to which we add also the outlays on special area programmes, and village and small scale industry to define overall 'Rural Development Expenditures' or RDE. The employment- generating programmes had assumed a special importance from the drought year 1987 onwards.

Table 3
Decelerating Growth rates of Agricultural Output

Period	Foodgrains	Non-Foodgrains	AllCrops	Population
1980-81 to 1989-90	2.85	3.77	3.19	2.1
1980-81 to 1989-90	1.66	1.86	1.73	1.9

Source: Govt of India, Ministry of Finance, Economic Survey, 2001-02, p.189. Note that slowing down of output growth is much steeper than slowing down of population growth implying falling per head output.

Table 4
Employment Decline in Rural India

	Year 1983	Year 1993-1994	Year 1999-2000	Growth per Annum	
				1983 to 1993-4	1993-4 to 1999-00
1. Population, mn.	546.6	658.8	727.5	1.79	1.67
2. Labour force, mn.	204.2	255.4	270.4	2.15	0.96
3. Work force mn.	187.9	241.0	250.9	2.40	0.67
4. Unemployed mn. (2-3)	16.3	14.4	19.5	-1.19	5.26

Source: Govt. of India, Ministry of Finance, Economic Survey 2002-03, p.218.

Over the 7th Plan period marking the pre-reforms phase, from 1985 to 1990, Rs.51,000 crores was spent on rural development, amounting to almost 4 percent of Net National Product, and Rs. 91,000 crores or over 7 percent of NNP was spent on Infrastructure¹. By the mid-1990s, annual spending on rural development was down to 2.6 percent of NNP, and after including infrastructure, less than 7 percent was being spent compared to 11 percent during the 7th Plan. Further declines took place so that by 2000-01 the share of spending under these heads was down to 5.8 percent of NNP, the rural development part halving to only 1.9 percent (see Table 2). The per capita expenditures obviously declined even more sharply. I estimate that in constant 1993-4 prices about Rs.30,000 crores less was being spent by the end-decade year 1999-2000, compared to the beginning, 1990-91. A crude point-

1 In Infrastructure we are including the expenditures on Energy and Transport.

to-point comparison would suggest an annual income loss of between 120,000 to 150,000 crores of rupees assuming a multiplier value between 4 and 5. Actual income loss would have been greater taking the cumulative losses over successive years. This harsh contractionary policy had nothing to do with any objective resource constraint but simply reflected the deflationary policies of the BWI which were internalized and sought to be justified by the Indian government.

There is no economic rationale for believing that “public investment crowds out private investment” which is the common argument put forward for reducing the state’s role in rural development. Precisely the contrary has been shown to hold for certain types of investment essential for an irrigation-dependent agriculture like India’s such as irrigation projects of all types. Private tube-well investment is profitable only where the water table remains high owing to seepage from state-built canal irrigation systems, and where community integrated watershed management (planting trees and using check-dams) is encouraged with state help. Private over-exploitation of ground water has now reached a crisis point in many states in India, with the water table falling rapidly and with even the richest farmers unable to reach water after investing heavily in deep borewells and submersible pumps. Other infrastructure investment such as rural power projects, roads, bridges, school buildings, clinics and so on, are never undertaken by private investors but are vital for stimulating development and providing livelihoods both directly to those employed in building them and through the important multiplier effects on employment and incomes, of the increased wage incomes being spent on simple consumer goods and services within the villages. The market for machine made textiles and other goods also thereby expands.

The net result of the unwise cut-back of public investment and in RDE has been a slowing of the rate of output growth –both food grain and non-food grain growth rates almost halved in the nineties compared to the pre-reform eighties, and both have fallen below the population growth rate even though this too is slowing down (Table 3). This has led to declining per capita output during the nineties, for the first time since the mid-sixties agricultural crisis, which however had been short-lived, whereas per head agricultural output continues to fall today even after a decade: The Agricultural Universities had earlier played a major role in developing and helping to disseminate new crop varieties, and the cut in funding for research in these Universities by affecting the search for better rain-fed crop varieties, has also contributed to the deceleration in the growth of yields. With increasing use of land for commercial and residential purposes, the gross sown area in India has

remained static since 1991, so it is only through yield rise that output growth can be maintained and it is here that the failure is evident.

The combination of decline in state RDE and the near-halving of agricultural growth has produced a major crisis of rising unemployment. There is both fast growing open unemployment and a fall in number of days employed of the work force during the economic reform period. Even with constant labour coefficients (labour days used per unit of crop output) a near halving of employment growth was to be expected given the decline in crop output growth, but the decline in jobs has been even more as mechanization especially of harvesting and use of herbicides has led to falling labour coefficients. Furthermore the rural non-farm employment growth, which was robust in the 1980s owing to reasonably high state RDE, had declined in the nineties. The ratio of labour force to population, or the participation rate, has declined (lower participation rate reflects difficulty of finding work), the ratio of work force to labour force has declined because open unemployment has been growing at over 5% annually (Table 4). The elasticity of employment with respect to output was 0.7 during 1983 to 1993-4 but has declined to 0.01 or virtually zero, taking the reforms period 1993-4 to 1999-00.

No-one should imagine that unemployed rural workers are migrating and finding employment in industry: there have also been massive job losses in manufacturing during the reform period and the share of the secondary sector in GDP has fallen from 29 to around 22 percent during the nineties, in short India has seen de-industrialization. The agricultural depression has reduced the share of agriculture in GDP from about a third at the beginning of the nineties to just over a fifth a decade later, but the labour force and population dependent on agriculture has hardly fallen reflecting decline in per head incomes. Thus both the material productive sectors have declined and the only sector which has ballooned in an abnormal manner² is the tertiary or services sector which now accounts for over half of GDP.

Only a small proportion of the services sector comprises IT-enabled high income services, business process outsourcing, domestic tourism services and the like. The major part in employment terms, is still low-productivity activities in which the rural displaced workers stagnate at low income levels, servicing the requirements of the up-

2 A rising contribution of services to GDP from an initial situation of a high share of industry to GDP has been typical for advanced economies. India however is seeing a fast shift to services from a relatively low initial share of manufacturing and mining output, less than 30% of GDP, which is now down to about one-fifth. This shift to services reflects de-industrialization and worsening income distribution.

per income elites who have been improving their real income position fast. Disposable incomes have risen even faster for this segment since a part of the neo-liberal reforms include reduction in direct tax rates. Advanced countries usually have this upper-income 10 to 15 percent minority of Indians in mind when they demand market access for their manufactures and agricultural products, and no doubt 100 to 150 million people is a large potential market. But the situation of the vast majority of the mainly rural population who do not merely stagnate at low income levels but whose position is considerably worse today than a decade earlier, cannot be ignored: a potentially highly destabilising situation is in the making.

While income and employment reduction through deflationary policies is the first main reason for loss of purchasing power in rural India, the second main reason is the unwise opening to global markets through full trade liberalization at a time from the mid-1990s, when global markets went into recession and primary product prices started falling – a fall which continues to this day.

MORE TRADE LEADS TO MORE HUNGER IN DEVELOPING COUNTRIES UNDER GLOBAL AND LOCAL DEFLATIONARY CONDITIONS

The land resources of India, more so than in most developing countries, have the potential for producing a highly diversified range of products – not only the crops and fruits grown in the summer season in temperate lands but also the typically tropical crops, which cannot be grown at all in advanced countries located in temperate regions. The crops of our lands have been demanded abroad in advanced countries for over three centuries for meeting their direct consumption and raw material needs. But, historically the growth of exports from tropical agriculture under free trade regimes, has always led to a fall in domestic food grains output and availability, plunging the mass of the population into deepening under-nutrition and in extreme cases into famine. In the half-century before Indian independence, per capita food grain output fell by nearly 30 percent while export crops grew ten times faster than food grains. I have earlier discussed some historical and current cases in developing countries, of the inverse relation between primary sector exports and domestic foodgrains absorption (Patnaik 1996, 2003a).

This is bound to happen since land is not a reproducible resource, and heavy external demand made on our more botanically diverse lands by advanced countries to meet their ever-rising and diversifying needs, leads to diversion of our land and resources away from locally consumed food staples to meet export demands. The position is worsened by exports out of more slowly growing food output itself. The

Ricardian theory of comparative advantage which says there is necessarily mutual gain from specialization and trade, contains a material and logical fallacy since the conclusion is based crucially on assuming that 'both countries produce both goods' which is factually untrue for agriculture. The advanced countries mainly located in cold temperate regions cannot produce tropical crops at all, so the cost of production of say coffee or rubber cannot even be defined in these countries, let alone relative cost and transformation frontiers³ (Patnaik, 2005).

In theory, more primary exports from developing countries can accompany more food production for domestic needs, but this can only happen when there is substantial rise in investment to raise productivity, for land is a non-producible resource whose 'supply' can only increase via investment permitting one hectare to produce what two hectares did earlier. It also requires that mass domestic demand grows, and is not held in check by income-deflating policies or excessive taxation as was the case under colonial systems.

The deeply disturbing feature of the current thrust for liberalizing trade is that it has been taking place within an investment-reducing, deflationary regime. I predicted in 1992 that given the deflationary climate, food security would be undermined with trade liberalization in India and that is precisely what has happened. As soon as trade was liberalized from 1991, within a few years, 8 million hectares of food-growing land were converted to exportable crops leading to a fall in per head food grain output, but farmers did not benefit since their exposure to steeply falling global primary prices from mid-decade plunged them into spiralling farm debt and insolvency. Nearly nine thousand recorded farmer suicides in India since 1998 are only the tip of the iceberg –there is a pervasive agrarian crisis and food grain absorption in India is back to the level prevailing fifty years ago.

Trade liberalization and an export thrust makes sense when local and global markets are expanding owing to expansionary developmental policies which promote growth in the material productive sectors, rising employment and incomes. But when the opposite is the case, when both globally and in local economies the dominant policy sentiment is strongly deflationary as at present, then trade liberalization spells lowered mass welfare in developing countries⁴. India's experience in the last fourteen years provides a good illustration of this. India, as a signatory to GATT 1994, removed all quantitative restrictions on trade and converted to tariffs by April 2001, lowering the average tariff rate at the same time to 35%, or well below the bound

3 A shorter version is available in Patnaik, U. (2003a).

4 See my discussion in Patnaik 1996, 2003c.

rates which were 100% for crops and 150% for agricultural processed products. India's thrust for trade liberalization could not have been worsely timed, since advanced country markets were in recession and global primary product prices went into a free fall with a 40%-50% decline in unit dollar prices of all crops –cereals, cotton, jute, sugar, tea, coffee– and up to an 80% decline in some oil crops between 1995 and 2001 as Table 5 shows. With a brief rise in 2002 prices have continued to fall and some prices are today lower than as far back as 1986. The price to growers is even lower than world price as the activities of the state marketing boards have been replaced by private transnational companies for many crops.

Table 5
Prices of some important traded primary products, in US dollars

	1988	1995	1997	2000	2001 (Jan.)	Percent Change 2001 over 1995
Wheat (US HW)	167	216	142	130	133	- 38.2
Wheat (US RSW)	160	198	129	102	106	- 46.5
Wheat (Argentine)	145	218	129	112	118	- 45.9
Maize (Argentine)	116	160	133	88	80	- 50.0
Maize (US)	118	159	112	97	92	- 22.0
Rice (US)	265.7	-	439.0	271	291	- 33.7
Rice (Thai)	284	336	316	207	179	- 46.7
Cotton	63.5	98.2	77.5	66	49.1	- 50.0
Groundnut Oil	590	991	1010	788*		- 20.5*
Palm Oil	437	626	93.5	74.7*		- 88.1*
Soyabean Oil	464	479	625	71.4*		- 85.1*
Soyabean Seed	297	273	262	199	178	- 34.8
Sorghum seed	110	156	111	102	99	- 36.5
Sugar	10.2	13.3	11.4	10.2	9.2	- 30.8
Jute	370	366	302	276*		- 24.6*

Source: *Food Outlook*, Various issues from 1986 to 2001; available from Global Information and Early Warning System on Agriculture, U N Food and Agriculture Organization; and *Monthly Commodity Price Bulletin*, UNCTAD 2001. For the cereals, edible oils and seeds the unit is USD per ton, for cotton and sugar, US cents per lb. and for Jute, USD per metric ton.

* Relates to 1999, and percent change is 1999 compared to 1995.

The 2004 price data shows that sugar, cotton and jute prices continue to remain flat around 2001 levels while cereals show some rise.

As prices fell for Indian producers of export crops, their access to low-cost credit was reduced under financial sector reforms. Since the nationalization of banks in 1969 agriculture and small scale industry had been treated as priority sectors and were offered bank credit at a lower than average interest rate but that ended with financial reforms, thrusting farmers into dependence on private moneylenders and high-cost credit (interest rates are usurious, ranging from 36% to 60% annually). Other crucial input prices including power tariffs were raised as part of the neo-liberal dicta on reducing subsidies (which were already meagre compared to developed countries). Reduced tariff protection meant that producers of rice, fresh fruit and dairy products faced the undermining of their incomes from an influx of usually heavily subsidized foreign goods.

Nearly six thousand indebted farmers, mainly cotton farmers, have committed suicide in Andhra Pradesh alone since 1998 as its government which had entered into a state-level Structural Adjustment Programme with the World Bank, raised power tariffs five times even as cotton price fell by half (Table 6). Over a thousand farmer suicides have also taken place in Punjab, mainly in the cotton belt, new rounds of suicides are recorded in Karanataka and Vidarbha, and in the four years from 2001, over 1,250 suicides are recorded in Wynaad in Kerala as prices to the local growers of coffee, tea and spices have nose-dived even more steeply than global prices once large companies have taken over purchase and marketing. Thus by 2003 the price of coffee to the grower was only one-quarter and that of tea and pepper only one-third of the prices prevailing in 1999.

The agrarian crisis was the main reason for the decisive mass rejection of neo-liberal policies and the May 2004 electoral defeat of the NDA coalition at the Centre as well as the TDP government in Andhra Pradesh. In recognition of the employment crisis the new United Progressive Alliance or UPA had promised to implement a National Rural Employment Guarantee Act which has been recently formulated and passed, but which has been diluted by taking the household as the unit, where only one member is entitled to work, and by setting the wage below the statutory minimum wage.

India has exported record volumes of wheat and rice during the last six years, and its share in global exports of rice and wheat has risen quite noticeably. Despite the drastic slowing down of output growth noted in Table 3, India exported 22 million tonnes of food grains during 2002 and 2003 (Bhalla 2005), and the share of grain exports in total exports has risen from under one-fifth to almost a quarter. There is higher global trade integration reflected in rising trade-GDP ratio. During the severe drought year starting from monsoon 2002, despite

grain output being 30 million tonnes lower than in the previous year, from June 2002 to November 2003, a total of 17 million tonnes of food grains were exported by the former NDA government. Superficially it looks as though policies of trade liberalization have 'worked'.

Table 6
Suicides of farmers in Andhra Pradesh by district

No.	District	1998	1999	2000	2001	2002	Total
1.	Warangal	77	7	7	28	903	1022
2.	Ananthapoor	1	1	50	50	10	112
3.	Mahaboobnagar	14	2	25	10	-	51
4.	Karimnagar	31	10	6	30	1220	1297
5.	Guntur	32	10	1	6	-	49
6.	Khammam	20	5	3	6	2	36
7.	Medak	15	3	2	8	-	28
8.	Adilabad	9	8	5	13	-	35
9.	Nalgonda	5	1	10	11	8	35
10.	Nizamabad	9	1	-	11	457	478
11.	Rangareddy	5	-	3	6	-	14
12.	Kurnool	4	4	2	4	-	14
13.	Chittoor	3	-	-	2	-	5
14.	Krishna	4	1	1	3	1	10
15.	Prakasham	1	3	-	2	-	6
16.	West Godavari	1	-	-	5	-	6
17.	East Godavari	-	-	1	2	-	3
18.	Sreekakulam	-	1	-	-	-	1
19.	Cuddapah	-	-	-	4	-	4
20.	Visakapatnm	-	-	-	1	-	1
	Unknown	2	1	-	-	-	3
Total		233	58	116	202	2601	3210

Note: The total number of suicides up to 2004 is over five thousand. Data from police records up to Jan. 27, 2002, presented by Kisan Sabha at a symposium on farmer suicides held at Hyderabad (Andhra Pradesh), 3 February 2002 and attended by the author. The Table has been partially updated by incorporating information for the whole of 2002, so far available for the three districts only (Warangal, Karimnagar and Nizamabad) as reported in *The Hindu*, Hyderabad edition, Jan.6 2003. For the other districts the figures given in the last column continue to refer to a single month, January 2002. Additional suicides numbering 1700 have taken place since then, for which the district break-up is not yet available.

However the crucial fact which is suppressed in official publications and in the writings of pro-reform economists, and this is true even

after the elections and the change in government, is that the vastly increased grain exports have been coming out of more and more empty stomachs as millions of rural labourers and farmers have suffered job loss and income decline. Food grain absorption in India today has reached a historic low as a result of the massive decline in purchasing power especially in villages owing to the combination of rising unemployment, rising input and credit costs for farmers and exposure to global price declines. Loss of purchasing power is pervasive affecting both the 158 million wage-dependent workers as well as the 120 million cultivating workers and their families. Targeting the food subsidy from 1997-8 by restricting supply of cheaper grain to only those officially identified as 'below the poverty line' has also added to the institutional denial of affordable food grains to the poor, not merely owing to mistakes of wrong exclusion from the set of the official poor, but also owing to the gross official underestimation of the numbers in poverty, discussed at the end of the paper.

LARGE DECLINE IN FOOD GRAINS ABSORPTION PER HEAD IS OWING TO FALLING PURCHASING POWER, NOT 'VOLUNTARY CHOICE'

The per capita availability or absorption of food grains in India has declined alarmingly during the decade of deflationary neo-liberal economic reforms, to only 155 kg. annually taking the three year average ending in 2002-03. This current level is the same as fifty years ago during the First Plan period, and it is also the level seen during 1937-41 under colonialism. This means that the food security gains of the four decades of protectionism up to 1991, have been totally reversed.

After Independence, from the early 1950s to four decades later, taking the 3 years ending 1991, the per capita food grain availability had climbed slowly from 155 kg. to 177 kg. -the achievement not only of a 'Green Revolution' but of expansionary policies slowly raising mass incomes and demand, without too much rise in already high inequality. While the Green Revolution had many problems, its positive achievement in raising grain availability and absorption, should not be underestimated. All this was reversed from the early 1990s. As the new regime, of deflationary economic reform policies from 1991 eroded mass employment and incomes, we find a decline of per capita absorption to 174 kg between 1995 and 1998 and a very steep fall after that to the current abysmally low 155 kg level. Forty years of successful effort to raise availability has been wiped out in a single decade, with over four-fifths of the decline coming in the last six years⁵.

5 I have discussed this in more detail in Patnaik 2003b, 2004.

Availability or absorption, is calculated from the hardest data we have, on annual net output⁶ adjusted only for change in public stocks and in trade, so by definition it has to cover all final uses –direct use for consumption as grain and its products, use as feed for converting to animal products (a part of this is exported), and industrial use. Per head availability/ absorption (the two are used as synonyms) is now one of the lowest in the world, with only Sub-Saharan Africa and some least developed countries registering lower absorption than India. Since urban India has been increasing average absorption and average calorie intake, it is rural India where the fall has been very steep. In comparison, China absorbed 325 kg. grains per capita (excluding tubers) in the mid-1990s compared to India's less than 200 kg. at that time, Mexico absorbed 375 kg., European countries absorbed 700 kg. or more and USA absorbed 850 kg. Except under abnormal conditions of war or famine, grain absorption is always observed to rise as a country's average income rises. This is why the fall in India is so unusual, and it is not being correctly theorized.

Although grain output per head fell by about 12 kg over the five years ending in 2002-03, as may be checked from Table 7 the per head absorption has fallen much more, by 21 kg over the same period. The average Indian family of five members is absorbing 100 kg. less of food grains annually than a mere five years ago and since in urban India absorption has risen (calorie intake has also risen), it is the rural family which is absorbing even less than the average fall indicates. This abnormal fall is because of the loss of purchasing power for reasons already discussed, and it was reflected in a massive build-up of unsold public food stocks, reaching 63 million tonnes by July 2002, nearly 40 million tonnes in excess of the normal stocks for that time of year. Rather than starting large-scale food-for work schemes to restore lost work and incomes, between June 2002 and October 2003, over 17 million tonnes of food grains were got rid of by the NDA government by exporting subsidized stocks to feed European cattle and Japanese pigs.

There can be two very different ways that such huge food stocks can build up: demand growth is normal but output increases much faster, or alternatively output increase is normal, but demand reduces very fast owing to loss of incomes, and the demand curve shifts downwards. In both cases supply exceeds demand, but for very different reasons. As already shown output growth has not been normal but has actually gone down, so the first reason does not hold. It is mass effec-

6 The official practice for 50 years, which I have followed in Table 7 is to deduct 12.5 percent from gross output in tonnes, of foodgrains (cereals plus pulses) on account of seed, feed and wastage, and to the net output so obtained, add net imports and deduct net addition to public stocks.

tive demand, hence absorption which has declined to a much greater extent, so it is the second reason and not the first which accounts for the present paradox of increasing rural hunger and record grain exports. If rural demand had been maintained even at the 1991 level (forget about any increase) the absorption of foodgrains today would be 26 million tonnes higher than it is, and there would be no crisis in the agriculture of Punjab and Haryana, which have lost an internal market to that extent in the last six years alone. Instead of rural per capita calorie intake declining to below the urban average, as has been the case in the nineties, energy intake would have been maintained.

Since all-India per capita income has been rising during the reform period, such a drastic fall in food grains absorption is clearly, only compatible with a drastic rise in the inequality of income distribution as we had earlier pointed out (Patnaik, 2003b). But rising inequality can also occur when all incomes are rising. Rising inequality per se is neither necessary nor sufficient for the observed drastic absolute decline in grain absorption⁷. The only scenario which is compatible with it, is a particular type of rise in inequality, namely absolute decline in real incomes and rise in absolute poverty, concentrated mainly in the rural areas, combined with a large rise in real incomes for the top fractiles of the population, concentrated mainly in urban areas. The data is partly reflecting this: one indicator is the decline in the per capita real expenditure on consumption by the lowest four-fifths of rural population during the end-1990s and a very sharp rise by the top one-fifth of urban population, which has been noted by Sen and Himanshu (2005). But even these findings are likely to understate the true extent of income decline for the mass of the rural population (we have no direct data on incomes). This is because this mass has been obliged to lose assets to maintain consumption and stay alive, while the well-to do have been saving much more over and above their greatly enhanced real expenditure and have entered real estate and financial markets. In short, there are in addition to the changes in observed flow variables like expenditure, also stock adjustments going on, namely changes in the distribution of assets which are adverse for the poor and on which data is not available.

The official position is one of wholesale denial of these obvious facts and the creation of what can only be called a fairy tale, fit only for intellectual infants. It is argued that there is voluntary reduction in food grain intake and thus there is 'over-production' requiring a cut-back in cereals output—a position not supported by the facts. The full

7 Rising inequality is not necessary because we can have fall in grain absorption when all incomes are falling and inequality is unchanged. It is not sufficient because if with increasing inequality all incomes are rising, grain absorption will not fall.

fairly tale set out in official publications goes like this: every segment of the population is reducing demand for cereals because average income is rising; (here, the increased income is assumed to be distributed in the same way as earlier, with no increase in inequality). People of all expenditure classes are voluntarily diversifying their diets away from cereals. The only reason that farmers continue to produce more cereals than demanded, and hence big stocks build up, is because too much output has been encouraged by 'too high' administered, minimum support prices of cereals. So MSP should be cut, cereals output in excess of what is demanded at present should be discouraged and the output pattern in agriculture should be diversified to more commercial export crops under the aegis of agro-businesses.

This analysis is completely incorrect and is inconsistent with the hard facts of rising unemployment, falling output growth, impoverishment of farmers in debt and land loss, and resulting deep agrarian distress. It is dangerous in reaching policy conclusions which are the opposite of those required, and which if implemented will reduce food security further and pauperize even more farmers.

To give an analogy, albeit an imperfect one, suppose that a patient has been wrongly diagnosed by a doctor and loses weight rapidly to the extent of 30 kg. The doctor then blames the tailor for making the clothes of the patient too big and advises that the old clothes should be thrown away and new ones sewn to fit his wasted body. Such advice will certainly alarm the patient for it shows that an abnormal situation is being rationalized as normal and no treatment to restore the patient to health will be followed. The official position on food grain output and food security, regrettably shared by many academics who seem not to have applied their minds to the matter, is indicative of such illogical reasoning and is alarming indeed for farmers and labourers in distress. The official prescription of reducing MSP, ending open-ended procurement and cutting back on output will worsen food deprivation and deepen poverty for the millions of farmers and labourers already in deep distress. The idea that price fall benefits 'the consumer' ignores the fact that three-fifths of consumers in a poor country are themselves rural producers or dependent for jobs on producers, and deflation harms their incomes.

It is an alarming scenario too for the farmers of Northern India who over the last four decades have been asked to specialize in food grain production, and have performed magnificently, selling their rising surpluses uncomplainingly to the Food Corporation of India even when the domestic procurement price was far below world price in the 1970s and again in the decade up to the late 1990s. They have ensured cheap food to urban areas and food deficit regions by not seeking to maximize their

own incomes. Today, as a result of the official embracing and putting into practice of mindless deflationary policies which have reduced mass purchasing power, they have lost internal grain markets to the tune of 26 million tonnes and are being given the irresponsible advice to 'diversify' and export to world markets even though these continue to be in recession, and even though all international organizations predict continuing fall in agricultural terms of trade up to 2009-10. Calculations by FAO shows that the terms of trade for agriculture globally, with 1990-91 as base year equal to 100, was about 50 by 2001, compared to over 200 in the 1970s. All projections up to 2009-10 by international bodies, show continued absolute price fall and further decline in terms of trade.

The question that is neither raised nor answered in official publications like the *Economic Survey* and the Reserve Bank of India's *Report on Currency and Finance* which articulate the fairy tale of voluntary diversification, is - How can people suffering employment loss and facing unprecedented crop price declines, be inferred to be better off and be voluntarily reducing cereals demand, and how is it that the current reduced level of total absorption of food grains per head of 155 kg per annum, is not seen in any country except the least developed and sub-Saharan African countries? The observed falling share of food expenditure in total expenditure for almost every expenditure group, is officially cited as proof of every income segment including the poorest diversifying diets and becoming better off, and seems to have persuaded some academics. No attention is paid to steadily falling average calorie intake in rural India as 'diversification' proceeds. The argument is quite fallacious and is based on a simple confusion between the necessary and sufficient conditions for improvement.

A falling share of food expenditure in total expenditure, as a well as a falling share of grain expenditure in food expenditure, are necessary, but not sufficient indices of the consumer becoming better off, particularly when we are considering, not an advanced country rich population, but a population already at a low standard of life. The food spending share of total spending can fall and is actually observed to fall, when people are getting worse off because their real income is constant or falling, since owing to greater monetization of the economy and higher cost of utilities they are forced to spend more on the bare minimum of non-food essentials. Thus even when real income is unchanged over time, some food expenditure has to be sacrificed to buy fuel (which is jointly demanded with food grains), incur higher transport costs in search of work, incur higher health costs and so on. Since the overwhelmingly large part of food expenditure itself is on staple grains, it is this which falls when food expenditure is cut. Data for sub-Saharan African countries shows dietary 'diversification' as per capita income declines. We observe a falling share

of calories from cereals and rising share from animal products, even as, with the large decline in cereal intake absolute calorie intake is seen to decline quite steeply (see Patnaik 2003b for a discussion). In effect, a Sub-Saharan Africa already exists in rural India today.

The official solution is inhumane in rationalizing increasing hunger as voluntary choice, basing its prescriptions on bad theory and fallacious reasoning. The only solution which is both humane and is based on sound economic theory, is to restore lost internal purchasing power through a universal Employment Guarantee and to revert to a universal Public Distribution System. The Finance Minister unwisely cut rural development expenditures drastically to only Rs.13.5 thousand crores last year – the same absolute sum as was spent fifteen years earlier in 1989-90. Rs. 13.5 thousand crores is an all-time low of only 0.6 percent of NNP and this gratuitous act of deflation in the face of farm crisis, has worsened the problems of unemployment and hunger. It may be compared to the Rs, 51,000 crores spent by the NDA in 2003-04 in the aftermath of drought, which sum itself was inadequate at 2.5 percent of NNP.

To meet the 10th Plan budget estimates on rural development, the government now needs to spend at least Rs. 100,000 crores during fiscal 2005-06 and 2006-07, of which up to Rs.30,000 crores should be on the national rural employment guarantee, and the remainder on the urgent and neglected needs of agriculture, rural development, irrigation and village and small scale industry. Although one lakh crores may sound a large sum it is still less than 4 percent of anticipated NNP in the next two years and inadequate for the needs of 700 million people, three fifths of the nation, whose fate depends on the government's policy.

The bizarre official efforts to re-invent increasing hunger as free choice, are buttressed by spurious estimates of the population in poverty, discussed in the last section.

ALTERNATIVE MEASURES OF HEAD-COUNT POVERTY: OR, HOW TO COUNT THE POOR CORRECTLY VERSUS ILLOGICAL OFFICIAL PROCEDURES

Poverty studies in India since the early 1970s, have been based on the use of a 'poverty line' expenditure level, defined as that level of expenditure per capita per month on all goods and services, whose food expenditure component provided an energy intake of 2400 kcal per capita in rural areas and 2100 kcal per capita in urban areas. All persons spending below the poverty line expenditure are considered to be poor. The required daily allowance (RDA) of energy was specified by the Indian Council for Medical Research and recommended by the Nutrition Expert Group to the Planning Commission in 1969. This is obviously a very minimalist definition of poverty, since no norms are

Table 7
Summary of Annual per capita Foodgrains Output and Availability in India
in the Nineties (Three Year Average)

Three-yr. Period Ending in	Average Population	Net Output per Head		Net	Availability	per Head	
		Cereals	Food	Cereals	Pulses	Foodgrain	
	million	Kg.	grains	Kg.	Kg.	Kg./ Year	Gms./ day
1991-92	850.70	163.43	178.77	162.8	14.2	177.0	485
1994-95	901.02	166.74	181.59	160.8	13.5	174.3	476
1997-98	953.07	162.98	176.81	161.6	12.6	174.3	477
2000-01	1008.14	164.84	177.71	151.7	11.5	163.2	447
2002-03	1050.67	153.85	164.09	142.91	10.12	153.0	419
Individual Year							
2003-04*	1087.6	158.33	170.83	n.a.	n.a.	n.a.	n.a.
2004-05*	1107.0	151.21	162.35	n.a.	n.a.	n.a.	n.a.

Change in Per Capita Availability of Foodgrains, %

Triennium ending 1991-92 to Triennium ending 1997-98

- 1.6

Triennium ending 1997-98 to triennium ending 2002-03

- 12.2

Total Change, 1991-92 to 2002-03.

-13.6

Source: For output, trade and stocks, Reserve Bank of India, *Report on Currency and Finance*, various years; and Govt. of India, Ministry of Finance, *Economic Survey*, various years. For population, the annual compound growth rate of 1.89 % has been derived from the Census population totals for 1991 and 2001 and used to interpolate for inter-censal years. Before 1991 and from 2001 onwards, the population figures given in the *Economic Survey* have been used.

* Indicates provisional..

set for essential non-food items of spending such as on fuel for cooking and lighting, clothing, shelter, transport, medical care or education.

The data base for estimating poverty has been the National Sample Survey Rounds on Consumption Expenditure which take the household as the sampling unit. These surveys present the distribution of persons by monthly per capita expenditure groups, and since the quantities of foods consumed and their calorie equivalents are available, they also present the calorie intake per capita per diem by expenditure groups. That particular expenditure group whose food expenditure met the calorie requirement in 1973-74, was identified and the relevant expenditure was defined as the poverty line expenditure (often this is mis-labelled as poverty line income, but we have no information on income). Large sample surveys are carried out at five-yearly intervals, the latest available data being from the 55th Round relating

to 1999-2000, from which the relevant data for All-India is reproduced in Table 8 using two published Reports of the NSS.

A good idea of the current magnitude of head-count poverty can be obtained by the lay person without any calculations, simply by inspecting the data in Table 8. Looking at the first, third and fifth columns, 69.7 percent or say seven-tenths of the rural population of India, spending less than Rs.525 per month per person, was below the average calorie level of 2403 (nearly the same as the 2400 norm), which was obtained only by the next higher spending group of Rs. 525-615. Since persons in the lower part of this group also obtained below 2400 calories, the poverty percentage is a bit higher than seven-tenths, and on plotting the data on a graph we obtain the more exact figure of 74.5 percent. Yet, the official Planning Commission figure of rural head-count poverty from the same data is only 27 percent! The difference between the estimate obtained by direct inspection of the latest data and the figure as given by the Planning Commission, is 47.5 percent, so nearly half of the actually poor rural population, about 350 million persons, are excluded from the set of the officially poor. Again, from direct inspection we see that about two-fifths of the urban population spending below Rs.575 per capita per month obtained less than 2091 calories (very close to the 2100 urban norm) which was the average for the next higher spending group. The exact percentage in urban poverty on plotting the graph, is 44 percent. The Planning Commission figure for urban poverty for the same year is only 23.5 percent. What explains this big difference? The Planning Commission has never officially given up the nutritional norm of 2400 calories. The majority of economists in India believe that this norm is still being followed. The reality is that the actual estimation procedure followed by the Planning Commission has de-linked its poverty estimates completely from the nutrition norm. The poverty line was obtained following the norm, only in 1973-74 using the 28th Round NSS data, a date three decades in the past. For that year at prices then prevailing, the rural and urban poverty lines were Rs.49.09 and Rs. 56.64 per capita per month, since at these expenditures the 2400 rural and 2100 urban calorie intake norms were satisfied. It was found that 56.4 percent of the rural and 49 percent of the urban population were below these poverty lines⁸.

For later years, strange though it may seem, no use was made of a single iota of the actual consumption data and calorie equivalents, thrown up by as many as five successive large-sample surveys (in 1977-8, 1983, 1988-9, 1993-4, and 1999-2000). There was no official attempt to update the poverty lines on the basis of the available current

8 It is a curious matter of chance that poverty lines were Rs.49.1 and Rs 56.6 while the corresponding poverty percentages were 56.4 and 49.

information on what expenditure was actually required to meet the nutrition norm. Rather, the three decade old poverty lines (Rs 49.1 and Rs.56.6, rural and urban), were simply adjusted upwards by using a price-index, while assuming an invariant 1973-74 consumption basket. The adjusted poverty line was then applied to the cumulative distribution of persons by expenditure groups, in current NSS data to obtain the 'poverty percentage'. Thus the current data was, and is being used selectively, with only the distribution of persons by expenditure classes being used, and the associated energy intake part being ignored completely. The declining energy intake corresponding to official poverty estimates are never mentioned, nor do academics following the same method ever mention the lowered calorie intake corresponding to their estimates (vide the papers in *Economic and Political Weekly*, 2003, special number tendentiously titled 'Poverty reduction in the 1990s'). The credibility of official and similar academic poverty estimates would certainly come into question if the educated public at large was informed about how far below RDA (Required Daily Allowance) the consumption standard has been continuously pushed down, by the official method.

For example the official price-index adjusted poverty line for 1999-2000 was Rs.328 only (about 6.7 times Rs. 49) and this has been applied to the first and last columns of Table 8 to read the population below this line which came to 27%. No attention was paid to the fact that at this expenditure a person could access at most only 1890 calories, over 500 calories per day below the RDA and nor is this fact ever mentioned to the public when poverty estimates are quoted by the Planning Commission. This amounts to suppression of information and is not an academically acceptable procedure. The same applies to the academics who follow the official method and who never allude to the lower and lower calorie intake inherent in their poverty lines.

Academics writing earlier (R. Nayyar 1991) however, had estimated poverty both by direct inspection of current data and by the official method, and had explicitly noted that the official poverty estimate diverged more and more over time from the much higher poverty percentages yielded by current data. As the base year of the official method gets further back in time the divergence has assumed absurd proportions. In 1993-4 the official price index adjustment method gave a rural poverty line of only Rs.205, and 37.3 % were below it in the 50th Round distribution of persons by expenditure groups, and so deemed to be 'in poverty', but the fact that at this poverty line only 1,970 calories per diem could be accessed (over 400 calories below the RDA) was never mentioned. Inspecting the same current 50th Round data showed that 74.5% of persons had an intake below the RDA of 2400 calories, because their

monthly expenditure was below the Rs.325 at which the nutrition RDA could be accessed. Mehta and Venkataraman (2000) pointed out for the 50th Round data, this large divergence between the results of applying the official definition, and following the official price-adjustment procedure, in a short but significant paper. They do not refer to Nayyar (1991) who had already pointed out the divergence for earlier Rounds and had also analysed state-wise divergence, but unfortunately her book had not been accorded the importance it deserved.

In 1999-2000 as we already noted the official estimate gives only 27.4 percent in poverty because these are the persons spending below the price-index adjusted official poverty line of Rs.328, but again the further lowering of the associated energy intake standard to 1890 calories, over 500 calories per day below RDA, is never mentioned. The same current 55th Round data shown in Table 8 continues to give 74.5 percent of persons actually in poverty, namely with intake below 2400 calories because their expenditure was below the Rs.570 required to access the RDA. (However, greater poverty depth is seen by 1999-00, with more of the population moving below 2100 calories as compared to 1993-94, and 3 percent more being below 1800 calories). Thus in 1993-4 the official method had left out 37.2 percent of the total rural population who were actually poor, while by 1999-2000 the official method was leaving out 47.4 of the total rural population or around 350 million persons who were actually poor. Table 9 summarizes the official poverty lines, poverty percentages and the falling calorie intakes at poverty lines, and it gives the true poverty lines required to access the RDA, along with the poverty percentages.

There is no theoretically acceptable basis to the official claims of poverty reduction in the 1990s. The basic point is that the method of comparison over time is not logically valid when the consumption standard is being altered, as is being done in the indirect estimates. The consumption standard in 1973-74 was 2400 calories at which 56% was in poverty, by 1993-94 the standard implicit in the official estimate (37% in poverty) was down to 1970 calories, and in 1999-2000 for the official estimate (27.4 %) it was even lower at 1890 calories. By the 60th Round, 2004-05 it is likely to be below 1800 calories and correspond to less than one-fifth of rural population. We will once more hear spurious claims of further 'poverty reduction' without any mention of the lowering of the energy intake.

How can anyone say how 'poverty' has changed over time using the above method? To give an analogy, when a set of runners are lined up in a row on a circular race track for a long-distance race, if the person in the inner-most circle crosses the finishing rope first, it cannot be validly inferred that he has won the race: for the distance run by

Table 8
Percentage Distribution of Persons by Monthly Per Capita Expenditure (MPCE) Groups
and average Calorie Intake per diem, 1999-2000, All-India

RURAL				
Monthly per capita Expenditure	Average MPCE	Calorie Intake per diem	Percent of persons	Cumulative percent of Persons
Rupees	Rupees	Per capita.	%	Kg.
Below 225	191	1383	5.1	5.1
225- 255	242	1609	5.0	10.1
255- 300	279	1733	10.1	20.2
300- 340	321	1868	10.0	30.2
340- 380	361	1957	10.3	40.5
380- 420	400	2054	9.7	50.2
420- 470	445	2173	10.2	60.4
470- 525	497	2289	9.3	69.7
525- 615	567	2403	10.3	80.0
615- 775	686	2581	9.9	89.9
775- 900	851	2735	5.0	94.9
900 & more	1344	3178	5.0	99.9
ALL	486	2149	99.9	

SUMMARY

470-525 and less	2289 and less	69.7
525-615	2403	10.3
615-775 and more	2581 and more	19.9

(continue)

GLOBALIZATION AND THE WASHINGTON CONSENSUS

(continue)

URBAN			
Monthly per capita Expenditure	Calorie Intake per diem	Percent of persons	Cumulative percent of Persons
Rupees	Per capita	%	Kg.
Below 300	1398	5.0	5.0
300- 350	1654	5.1	10.1
350- 425	1729	9.6	19.7
425- 500	1912	10.1	29.8
500- 575	1968	9.9	39.7
575- 665	2091	10.0	49.7
665- 775	2187	10.1	59.8
775-915	2297	10.0	69.8
915-1120	2467	10.0	79.8
1120-1500	2536	10.1	89.9
1500- 1925	2736	5.0	94.9
1925 & more	2938	5.0	100
ALL	2156	99.9	

SUMMARY

500-575 and less	1968 and less	39.7
575-665	2091	10.0
665-775 and more	2187 and more	50.2

Source: National Sample Survey Organization (55th Round, 1999-2000) Report No. 471, *Nutritional Intake in India* for calorie intake data by expenditure groups and Report No. 454, *Household Consumer Expenditure in India - Key Results* for the distribution of persons. The calorie intake data. refers to the 30 day recall so the distribution of persons by the same recall period is taken above.

him is much less than that run by others. For a valid comparison of the runners' performance, the distance run has to be the same standardized distance for all the runners, and this is done by staggering the runners. Similarly, in the official method the percent of persons below the same, standardized consumption level or levels, need to be compared but this is not the case in the indirect method. Rather, the method used implies that the percentages below un-standardized and changing consumption levels are sought to be compared over time (see Table 9)⁹. This is not legitimate, and any statement about decline (or change generally) is not valid. Present day heated debates between the estimators about whether poverty has 'declined' by ten points or seven points, when poverty has not declined at all, can be likened to debates over whether the inner-circle runner has 'won' by one metre or two metres, when the fact of the matter is that he has not 'won' at all, because the premise for valid comparison is violated.

Table 9
The Rural Poor as Percent of Rural Population in India

NSSRound	1973	1983	1993	1999	2004	MPCE (Poverty line) Rs				
	- 74		- 94	- 00		1973	1983	1993	1999	2004
	28 th	32 th	50 th	55 th	60 th	28 th	32 th	50 th	55 th	60 th
Using Official Definition (<MPCE giving 2400 cal)	56.4	70.0	74.5	74.5	n.a	49	120	325	570	n.a
Official Estimates	56.4	45.7	37.3	27.4	20.3*	49	86	206	328	354
and Implied Calorie 'Norm'	2400	2060	1970	1890	n.a	(1.0)	(1.4)	(1.6)	(1.7)	n.a

Source: First line calculated from NSS Reports on Consumer Expenditure, 50th Round 1993-4 and 55th Round 199-00. MPCE is Monthly Per Capita Expenditure.

Note that base year 1973-74 is the only year the official definition was correctly applied. - in all later years the nutrition norm is continuously diluted. The same exercise can be carried out for urban India. (Figures in parentheses are the ratio of the expenditure actually required to access the calorie RDA, to the official poverty line).

* Provisional estimate, applying official poverty line of Rs.344 for 2004, to the ogive of persons by expenditure levels from NSS 60th Round, January – June 2004, Report No. 505 *Household Consumer Expenditure in India*, Statement 3.2 R.

9 The analogy can be carried a little further. If the race is a short one over a straight segment of the course, lining the runners up in a straight line at the starting point is okay. Similarly if the base year of the price index is very close, say two to three years, then comparison over time can be made using the official method –which ignores every non-base year actual calorie intake– without leading to too much inaccuracy. But for a long race (a base year further back in time) absence of standardization will arise and make comparison invalid.

The official rural monthly poverty line expenditure for 2004 (obtained by updating the 1999-00 poverty line of Rs.328, using the CPIAL), is Rs.354 or Rs11.8 daily, equivalent to 26 US cents at the prevailing exchange rate. This paltry amount will actually buy at most one bottle of water, but it is supposed to cover all expenditure on food, fuel, clothing, shelter, transport, health and education – in short all daily spending on goods and services for one person! Estimates of Indian poverty for 1999-00, 55th Round, by some individual academics like A.Deaton (2003b, 367) and S.Bhalla (2003) are even lower and imply a poverty-line of 20 US cents or less expenditure per day, one-fifth of the World Bank's dollar-a-day measure. There is no logic in arguing that purchasing power parity should be considered and instead of one dollar therefore around one third of that should be taken as the local poverty line, for the comparison is not between advanced and developing countries at all but between developing and other developing countries. A quarter U.S dollar in India purchases exactly as much as Rs.11 does, at the prevailing exchange rate, and a quarter US dollar purchases exactly as much as 2 yuan does in China (whose current rural poverty line is also far too low at 2.2 yuan per day). Poverty level incomes in the USA are not set three times higher than the Chinese or Indian one, but are at least thirty times higher.

Obviously, it is not difficult for either the Planning Commission or the individual academics to 'adjust' Indian poverty figures downwards when the consumption level embodied in the rural poverty line, is depressed to such sub-human levels as Rs11 or less per day. Few people can actually survive long below these levels –those who are there today are on their way to early death. The poverty estimators should try a test on themselves. Let them be handed the weekly equivalent of their own estimated monthly poverty line –they need not even exert themselves to earn it as the poor are obliged to do– and let them spend only one week in a village living on that amount, which would range from Rs.60 to Rs, 80. Since they will not be confident of drinking the local water all they would be able to buy would be a bottle of water a day and no food let alone other necessities. What they would undoubtedly gain from their one-week stay, would be weight loss. Urban poverty lines are almost equally unrealistic.

Sometimes to justify the indirect method it is argued that the original rural consumption norm of 2400 was 'too high'. First, it is not 'too high' because the average intake of those below it works out to about 1950 calories which is lower than in any other country in the world except the least developed countries. Second, even if it is accepted for the sake of argument that it was 'too high' it does not justify comparing 1999-2000 'poverty' figures which are all those persons below 1890

calories intake, to those persons below 1970 calories intake in 1993-94 and those persons below 2400 calories intake in 1973-74.

By all means, let us consider lower norms, in fact take several alternative norms including 2400, but when comparing over time, compare the proportion of population under the same norm at the two points of time –for only then will the comparison be valid. The indirect estimates fail on this simple but essential criterion of comparability over time and those who nevertheless undertake such comparison are committing a logical fallacy –*the fallacy of equivocation*. This a well known type of verbal fallacy, in which the same term is used with two completely different meanings in the course of the argument, so the inference is not true. In this case, ‘poverty line’ was defined and initially calculated with respect to a nutrition norm, while ‘poverty line’ as actually calculated is de-linked from the norm, so the inference regarding change (whether rise, fall or constancy) is not true¹⁰.

Not only is the official comparison of poverty percentages, and claims of poverty reduction over time, quite spurious; the comparison of the poverty levels of states at a given point of time, is equally invalid. As Table 10 shows, we have a bizarre picture when we calculate the maximum calorie intake levels below which people are designated as ‘poor’ by the official method in the different states of India. The calorie intake corresponding to the official state-wise poverty lines, –from which the state poverty percentage have been officially derived– for the year 1999-2000, varies from 1440 only in Kerala, nearly a thousand calories below RDA, to 2120 in Orissa, less than 300 calories below RDA.

The fact is that the official method in India today adheres to no nutrition norm at all. Nutrition has dropped out of the picture completely in the indirect method, nor is there any lower bound which is set, to the extent of decline in the calorie intake corresponding to whatever the price-adjusted poverty line happens to be. That is why we find states with 1500 calories or less intake corresponding to their official poverty lines in 1999-00. In as many as 9 states, the calorie intake associated with the official poverty lines was below 1800 calories in the 55th Round, while in four states it was 1600 calories or less (see Table 10). None of this is mentioned when poverty estimates are quoted by those making them.

Not even the late P.V. Sukhatme, who was a consistent critic of the 2400 calorie RDA being too high, would have accepted 1800 calories as a reasonable norm for estimating who the poor are, –let alone 1600 calories or less. He had used a norm of 2200 calories in one of his own

10 I have discussed the fallacy of equivocation involved in the indirect estimates, in Patnaik 2005b.

estimates (Sukhatme 1977). By 2004-05 the All-India official poverty line itself will correspond to an intake of 1800 calories or less, and at least eight states will have a 1600 or less calorie intake corresponding to the state-specific official poverty lines.

The fact that comparability conditions are blatantly violated, is obvious. Officially it is inferred that poverty is much higher, for example, in Orissa at 48 percent, than in neighbouring Andhra Pradesh at only 11 percent. But how can we possibly infer that Orissa is 'poorer' than Andhra, when the 'officially poor' are those persons with below 2120 calories intake in Orissa but the 'officially poor' are those persons with below 1600 calories intake in Andhra? (As a matter of fact the below 2400 and below 2100 calories poverty percentages are both higher in Andhra than in Orissa as the same Table shows in the last two columns). Similarly, how can it be inferred that rural Gujarat with only 13 percent officially in poverty, is much better off than West Bengal with 33 percent officially poor, when the associated calorie 'norm' in Gujarat has been pushed down to only 1680 compared to 1900 in West Bengal? As a matter of fact the below 2400 calories poverty percentage is marginally lower for W.Bengal compared to Gujarat and the below 2100 calories percentage is substantially lower for W.Bengal. And so the anomalies can be multiplied. Further, how can, for each state, the official estimate in 1999-00 be compared with that in 1993-94 and inference about 'decline' be drawn, when the associated calorie intake has been lowered in each state? (Except only one, Gujarat).

As a teacher if I were to follow the illogical procedure of saying that student A who has 53 percent marks is 'better' than student B who has 59 percent marks, because I apply a 50 out of 100 marks standard to student A and apply a different, 60 marks out of 100 standard to student B, I would rightly face a court case. Yet our Planning Commission and individual academics have been allowed to get away with making patently illogical and untrue statements on poverty. The Deputy Chairman of the Planning Commission recently congratulated the Andhra Pradesh government on its success in reducing poverty. This 'reduction' was solely the effect of applying an extraordinarily low price-adjusted poverty line of Rs. 262 per month in 1999-00 at which less than 1600 calories could be accessed (See Table 10). Looking directly at nutrition poverty, we find that the proportion of persons below 1800 calories intake in that state has doubled to 40% by 1999-00 compared to 1983 (Table 11). To complete the story, the proportion below 2100 calories has risen to 62% at the later date, compared to 56 % only five years earlier in 1993-4, and 44% in 1983.

What is the reason, the reader might ask, for the official method producing consistently lower estimates than the direct method, and why

has the divergence been growing until now, the indirect estimate gives only 27 percent compared to nearly 75 percent by the direct estimate. It is not primarily a matter of the price index used: different price indices do give different results but this accounts for difference of at most 10 percent or so of population, not the difference of 48 percent of population which is actually observed. The basic reason is assuming an invariant consumption basket in the indirect method, held unchanged for three decades. Over these three decades however there has been increasing monetization of the economy and disappearance of common property resources, along with higher cost of utilities and health care. With a given real income people have to spend relatively more on essential non-food requirements, overcoming illness and earning a living. The actual current rural consumption basket which satisfies the nutrition norm, and to which the total monthly expenditure on all goods and services corresponds, costs almost double the price-adjusted poverty line (from Table 8 summarized in Table 9, at least Rs.570 is required compare to the official Rs.328). The official poverty lines are simply far too low and are getting further lowered as the base year becomes more remote.

Rohini Nayyar (1991) in her careful doctoral study, estimated poverty using both methods and noted the widening divergence in the results between 1961-2 and 1977-8. She had taken some solace from the fact that though poverty levels estimated by the two different methods were moving apart quite fast, at least they did seem to move in the same direction over time. The ranking of the states of India according to their poverty levels estimated using the two methods, was highly correlated: Nayyar found that Spearman's rank correlation coefficient worked out to 0.89 and 0.84 (using the official estimate on the one hand, and two different direct estimate norms of 2200 and 2000 calories) and was significant at the 1% level.

But in the 1990s this conclusion no longer holds. The poverty levels calculated by the two methods are moving fast in opposite directions and the rank correlation may soon become negative. Spearman's rank correlation taking the poverty ranks of the states by the official indirect method, and by the direct method for 1999-2000, 55th Round data, works out to only 0.236 and 0.075 (using the same two direct estimate norms) and neither is statistically significant at the 1% level (Ram, 2004). Inspection of Table 10 will tell the reader why this is the case: some of the states with the lowest official poverty, such as Andhra Pradesh, a by-word for agrarian distress, have some of the highest actual poverty. In general the official method produces the largest divergence from the direct method, in the case of the Southern and Eastern states.

The rot in poverty studies discussions seems to have set in with neo-liberal reforms in India, particularly in the late 1990s. The Indian Government was eager to claim success for the economic reforms and the pro-reform economists were eager to see poverty reduction in the data. In such a milieu, the inconvenient direct estimates showing high and in some states, increasing levels of poverty were swept under the carpet. Discussion of direct estimation of poverty virtually disappeared from the literature. The dominant trend of discussion focussed on the official indirect method, which, to the great satisfaction of the pro-reform and the World Bank estimators, not only showed very low 'poverty' levels but actual decline in these levels. Not one of the authors using the official indirect method, alluded to the nutritional implications of their own estimates. This meant that they were using and presenting the NSS data selectively, taking only the distribution of persons by expenditure classes to read off the poverty proportion corresponding to their indirect poverty line, while ignoring the associated energy intake figures completely. Such lack of transparency and selective use of data, is not acceptable academic procedure. Owing to this lack of transparency, to this day most economists in India not directly working with the data, and including even those examining research theses on poverty, are not aware that drastically lowered consumption levels over time and arbitrary variation of consumption levels across states, are the necessary implications of following the indirect method and arriving at low poverty estimates. They assume that the original norms are being followed when this is not true.

There is a debate among the academics following the official, indirect method, that owing to change in the recall period during the 55th round, 1999-2000 compared to earlier Rounds, actual expenditure is slightly overstated in every expenditure class, and hence the distribution of persons by expenditure classes has been affected. Making the required adjustment for comparability alters the distribution slightly and raises the 27 percent below the Rs.328 official price –adjusted poverty line, by another 2 to 3 percent (Sundaram and Tendulkar, 2003, Deaton, 2003a, Sen and Himanshu 2005). If these adjustments are correct, quite obviously, the percentage of persons below the directly observed poverty line of Rs.570 would rise to an even greater extent than 2 to 3, since a higher proportion of people than before would also come into the expenditure interval Rs.328 to Rs 570, and thus the difference between official estimate and the direct estimate would increase further. Thus all those with less than 2400 calories intake per diem, in 1999-2000 would be more than $74.5 + 3 = 77.5$ percent of rural population, which is a rise compared to 74.5 percent in the 50th

Round, 1993-94. Similarly those below 2100 calories would rise from 49.5 percent to more than 52.5 percent¹¹.

However we have chosen to give the direct estimate for 1999-2000 unadjusted for recall period in all our tables, since the main point being made in this section, is the type of mistake involved in the indirect method itself which is leaving out nearly half the rural poor, and this basic problem with all indirect estimates not only remains but gets further aggravated, whenever adjustments are made by the estimators on account of altered recall period. It may be noted that with the adjustment for recall period, they are leaving out more than 47 percent of the actually poor rural population from their set of 'the poor' while without the adjustment, they were leaving out exactly 47 percent of the population.

Some economists who are critical of the official price-adjustment method, have put nutrition back at the centre of their analysis, but they have followed another direct poverty estimation route, as compared to inspecting current NSS data –the method we have followed. They have estimated the minimum cost of accessing the calorie RDA on the basis of current nutrient prices, and thus have obtained a normative food expenditure. By comparing with the actual expenditure on food in the NSS, they arrive at the percentage of persons failing to reach the RDA and this is 66 percent at the All-India level for the 55th Round (See Coondoo, Majumdar, Lancaster and Ray 2004, Ray and Lancaster 2005). Subramanian (2005) has used indirect method base years closer to the present, as well as the direct method we use, to see how the trends in poverty behave under alternative scenarios.

Many critical voices (Suryanarayana 1996, Mehta and Venkataraman 2000, Swaminathan 1999, 2002) which had continued to draw attention to the high prevalence of undernutrition and malnutrition, to the secular decline in average rural calorie intake, to high direct poverty estimates using reasonable calorie norms and which criticized the indirect estimates, have been sought to be silenced by the pro-reform economists, by the simple expedient of ignoring them altogether. Not one critical author is referred to in the articles by those presenting their indirect estimates at a Conference and later collecting them in a special issue of *The Economic and Political Weekly* tendentiously titled 'Poverty Reduction in the 1990s' (Deaton 2003a, and 2003b; Tendulkar and Sundaram 2003 etc.). The only article on energy intake

11 We could easily find out how much higher the direct estimate would be than 74.5 percent if those making the adjustment to the distribution of persons by expenditure class, had bothered to present the associated average calorie intake by expenditure class. As usual however they ignore the nutrition part completely in their papers.

Table 10
 Official Poverty Percentage by States and Associated Calorie 'Norm'

STATE	Indirect estimates, 1993-4 and 1999-00				Direct Estimates, 1999-2000	
	1993-1994		1999-2000		< 2400 cal Poverty Percentage	< 2100 cal Poverty Percentage
	Official Poverty Percentage	Implied Calorie 'Norm'	Official Poverty Percentage	Implied Calorie 'Norm'		
Andhra						
Pradesh	15.92	1700	11.05	1590	84.0	62.0
Assam	45.01	1960	40.04	1790	91.0	71.0
Bihar	58.21	2275	44.30	2010	77.0	53.5
Gujarat	22.18	1650	13.17	1680	83.0	68.5
Haryana	28.02	1970	8.27	1720	47.5	30.5
Karnataka	29.88	1800	17.30	1600	82.0	50.0
Kerala	25.76	1630	9.38	1440	82.5	52.5
Madhya						
Pradesh	40.64	1970	37.06	1850	78.5	55.0
Maharashtra	37.93	1780	23.72	1760	92.0	55.0
Orissa	49.72	2150	48.01	2120	79.0	45.5
Punjab	11.95	1810	6.35	1710	47.5	36.5
Rajasthan	26.46	2130	13.74	1925	53.5	27.5
Tamilnadu	32.48	1650	20.55	1510	94.5	76.0
Uttar						
Pradesh	48.28	2220	31.22	2040	61.0	37.5
West Bengal	40.80	2080	31.85	1900	81.0	55.0
ALL INDIA	37.27	1970	27.09	1890	74.5	49.5

Source: As Table 8. From the basic data by states, the ogive or cumulative frequency distribution of persons below specified per capita expenditure levels was plotted, and on the same graph the relation of per capita expenditure and per capita calorie intake was plotted. Calorie intake corresponding to the official estimates was then obtained from the graphs. Note that for 1993-94 the mid-point value of each expenditure class has been plotted against the per capita calorie intake as the arithmetic average was not available in the published tables. For 1999-2000 it was available and has been used in deriving the figures for 1999-00. We find that for several expenditure classes the mid-point value coincided with the arithmetic mean, and for the others the difference of mid-point value from mean was very small, suggesting that the same would be true for 1993-4.

while juxtaposing the official and direct estimate does so somewhat uncritically¹².

The critical writers on the other hand, have given cogent arguments to suggest why per capita calorie intake should be involuntarily declining in the lower expenditure classes over time. (It is also declining in higher expenditure classes but the problems of the initially overfed who may be reducing intake, do not concern us at present). They have pointed out that there has been substantial monetization of the economy over the last three decades. Wages which used to be paid in

Table 11

States which have seen rise in the percentage of persons with less than 1800 calories intake per day during period 1983 to 1999-2000, and states with over one-third of population below 1800 calories intake at either date

Rural	38th Round, 1983 < 1800 calories Percent of total Persons	55th Round, 1999-2000 < 1800 calories Percent of total Persons
Andhra Pradesh	19.0	40.0
Assam	28.5	41.0
Haryana	8.5	10.5
Karnataka	24.5	35.5
Kerala	50.0	41.0
Madhya Pradesh	18.5	32.5
Maharashtra	20.5	28.0
Tamilnadu	54.0	50.0
West Bengal	38.0	22.5

Source: Abstracted from estimates for all states, using NSS Reports No.471 and 454 for 55th round, and Report Nos.387 and 353 for 38th Round. Estimation method as in note to Table 10. Note that in 1983 only 3 states – Kerala, Tamilnadu and West Bengal had more than one-third of rural population below 1800 calories intake. By 1999-2000 all three states had improved, West Bengal substantially, while Andhra Pradesh, Assam, Karnataka, Madhya Pradesh and Maharashtra saw worsening. Thus by 1999-00, five states had more than one third of population below 1800 calories intake (six if we include the borderline Madhya Pradesh).

12 Meenakshi and Viswanathan 2003 present ‘calorie deprivation’ as though it is an independent topic, not essentially related to official poverty estimates, and although they usefully juxtapose their estimates of population below differing calorie norms, and the official estimates, they do not refer to the falling energy equivalent of the official or individual poverty lines over time which affects comparability. Their method of estimating the calorie distribution ogives using kernel density functions, gives higher estimates of population below various calorie norms, than our estimates using the grouped data and the simple method described in the note to Table 10. This is probably because their estimate includes all well-to-do persons who have lower calorie intake than RDA. There is no reason however to consider rich race jockeys, super models or anorexic people as part of the poor.

kind as grain or meals, valued at low farm-gate prices in earlier NSS Rounds, are now paid in cash which the labourer has to exchange for food at higher retail prices, and so can buy less of it for a given real income. Common property resources have disappeared over the last three decades : fuel wood and fodder, earlier gleaned and gathered (and not fully valued in the NSS data), now have to be purchased, restricting the ability of the poorer population, to satisfy basic food needs out of a given real income and leading to the observed energy intake decline. Staple grains and fuelwood or other fuels are obviously, jointly demanded since no-one can eat raw grain, and with a given real income a part of expenditure on grain has to be enforcedly reduced to purchase fuel. To this we have to add higher medical, transport and education costs as state funding is reduced and some services are privatized. The correct thrust of these arguments is that under-nutrition and poverty is very high, affecting three-quarters of the rural population by now, and observed calorie intake decline for the lower fractiles is non-voluntary. By 1999-2000 for the first time average calorie intake in rural India has fallen below average urban calorie intake.

CONCLUDING REMARKS

This paper has embarked on a brief but sharp critique of the prevalent analysis and prescriptions regarding food security and poverty, because of two reasons. First, the agrarian crisis is serious and widespread, and has been created by public policies which have been deflationary, combined with trade liberalization when world primary prices have been declining. It is manifesting itself in slowing output growth, rising unemployment, unprecedented income deflation for the majority of cultivators and labourers, enmeshing of cultivators in unrepayable debt, and loss of assets including land, to creditors. Kidney sales and nine thousand recorded farmer suicides are only the tip of the iceberg of increasing deprivation, a crucial index of which is an unprecedented fall in foodgrains absorption to levels prevalent 50 years ago, and decline in average calorie intake in rural India.

Second, the prevalent analysis by policy makers, the Planning Commission and the government, however, can be summed up as an obdurate refusal to face the facts, and an attempt to construct a counter-factual fairy story which is illogical and in patent contradiction with the trends in the economy. "We must learn truth from facts" (Mao ZeDong) "or the facts will punish us" (added by Deng Hsiao Ping) is a dictum that our policy makers would do well to bear in mind. Their theorization interprets severe loss of purchasing power and enforced decline in effective demand for food grains, as its very opposite, as 'over-production' in relation to an allegedly voluntary reduction of

foodgrains intake by all segments of the population, and reaches the dangerous inference that foodgrains output should be cut back. It refuses to recognize that, while in developed societies, consumers can be separated from a minority who are agricultural producers, in a poor country like India the majority of consumers are themselves rural and directly involved in production as cultivators and labourers, so deflationary policies hit them hard in both these roles of producers and consumers. Price deflation does not benefit even landless labourers since it is part of a process of income deflation which raises unemployment faster than prices fall. Our economists estimating poverty by the indirect method are still caught in the old conceptual trap of equating relative food price decline with declining poverty, without understanding that the adverse unemployment effects of deflation can swamp out any benefit of food price fall: they should study the economics of the Great Depression for some insights into how deflationary processes actually operate.

As Table 11 shows, by 1999-2000 as many as five states had more than one-third of rural population below 1800 calories intake, and in another three states the percentage of persons with below 1800 calories intake, had risen between 1983 and 1999-00, though not exceeding one-third at the latter date. (Note that Meenakshi and Viswanathan, 2003, obtain a larger number than we do, eight states with more than one-third of population below 1800 calories in the 55th Round –but their use of kernel density functions to obtain the calorie distribution ogive, is perhaps overestimating the nutrition poverty figures, since their method includes all high income but calorie deficient people as well).

Despite this worsening situation at the ground level being reflected in the nutrition data, it would be very sad indeed if the present Planning Commission is tempted to make further spurious claims of ‘poverty reduction’ as the previous ones had done, the moment the next large-sample NSS data on consumption becomes available. Their indirect method –which selectively uses the data by ignoring the nutrition part of it– is bound to show a further steep and spurious ‘decline’ in rural poverty by 2005-06, to around 18-19 percent of rural population from 27.4 percent in 1999-2000.

This is because, owing to the unprecedented income deflationary situation itself, the rise in prices has been at a historic low between 2000 to date. The CPIAL actually declined in 2000-01 compared to the previous year, and rose only 1 percent the next year. With low inflation, the CPIAL adjusted official poverty lines for 2003 and 2004 works out to only Rs. 342 and Rs. 354, a mere Rs. 14 and Rs.26 more than the Rs.328 of 1999-00. The already published 58th Round NSS data relating to 2002-03 had shown that only 22 percent of all –India

rural population was below Rs. 342, a share which is falling further every year, solely because few persons can survive at such low levels of spending— it is indeed amazing that there are people surviving at all on less than Rs.11.5 per day. One can imagine how adverse their height, weight, morbidity rates and life expectancy would be relative to the average.

It is no surprise that in fact the latest 60th Round consumption data covering January-June 2004, which has been released as Report No.505 by the NSS in end November 2005, shows that now only 23 percent of all persons in rural India are below Rs. 354 monthly per capita expenditure, the poverty line for 2004 if schedule 1 is used and only 17.5 percent is below the same poverty line if schedule 2 is used. While this is a thin sample, it is adequate for the all-India estimates. Of course, this will be necessarily associated with a further fall in the calorie intake level corresponding to the official poverty line, from 1890 calories to somewhere around or below 1800 calories, in short at least 600 calories below RDA. This information of declining nutrition standard associated with the official estimate is likely to be quietly suppressed as it has been in the past. The Government should bear in mind however, that any claims of 'poverty reduction' it might be misguided enough to make, will no longer carry credibility since the arbitrary and illogical nature of its method of calculation is today much better understood, and the contrast of any such claims, with all other adverse trends in the rural economy is too glaring to be ignored.

Since such a large fraction of the population is already at very low energy intake levels, they have been trying to maintain consumption by liquidating assets against debt. Thus there are not only adverse flow adjustment (lowered nutrition levels) but also stock adjustments going on, reflected in the emerging recent data on rising landlessness. We may expect to see rise in the already high concentration of assets in rural areas. In such a scenario labour bondedness against debt is also likely to be increasing.

The Tenth Plan, 1992 to 1997 sets out that Rs, 300, 000 crores are to be spent by the Centre on Rural Development Expenditures (adding up as before three items)¹³. Three years of the Plan or two-thirds of the period is over: Rs.100,000 crores or only one-third of the planned outlays have been spent, of which Rs.85,000 crores spending was during the last two years of NDA rule, mid- 2002 to mid-2004, while there was a sharp cut-back to Rs. 15,000 crores only in 2004-05. As in 1991 the first years after a general election are being used by the neo-liberal

13 Namely, agriculture and rural development, irrigation and flood control, village and small scale industry.

lobby in the new government which controls finance, to apply mindless deflation although unlike 1991 there is deep agrarian crisis today. This cynical move to cut rural development expenditures in the face of rising unemployment and agrarian distress, can only be in order to please international financial institutions and meet the arbitrary provisions of the FRBM Act.

To achieve the 10th Plan target now, at least Rs.100,000 crores must be spent both in 2005-06 and 2006-07, of which about 25 to 30 thousand crores should be on universal employment guarantee and 70 to 75 thousand crores on rural development expenditures. This level of planned spending would total only about 2.5 percent of NNP and it needs to be stepped up steadily in later years to reach the 4 percent of NNP which prevailed in the late 1980s during 7th Plan before economic reforms began.

When actual rural poverty is so high as nearly four-fifths of the population, and poverty depth is increasing with a higher proportion of people being pushed down into lower nutritional levels, there is no economic rationale for continuing with a targeted public distribution system. Indeed as I have long argued, apart from the deflationary policies and exposure to the falling global prices, another reason for the denial of affordable food grains to the poor has been targeting using the arbitrary official poverty estimates. The reversal to a demand driven universal PDS is essential for rectifying the initial mistake made in 1997. But a demand driven universal PDS will work well only if mass purchasing power which has been greatly eroded over the last fifteen years, is restored through the implementation of a properly funded National Rural Employment Guarantee Act. The Act has been passed and implementation has started from Feb 1, 2006. Within a month, 4 million persons have already registered to offer themselves for work. But the scheme cannot be said to be properly funded at all. A number of economists had pointed out that between Rs. 25,000 crores to Rs.30,000 crores was the order of annual expenditure required to give a genuine boost to employment and incomes after taking all multiplier effects into account. This could have been easily undertaken since tax receipts even at unchanged tax rates, have been buoyant, owing mainly to the rich getting considerably richer in recent years. But those controlling the government's finances have already demonstrated their lack of concern for dealing actively with the agrarian crisis. All pre-existing employment creating programmes such as SGRY, JRY¹⁴ and all food-for-work programmes which together had accounted for Rs 11.7 thousand crores of the central government's

14 SGRY is Sampoorna Grameen Rozgar Yojana, JRY is Jawahar Rozgar Yojana.

expenditure in 2005-06, have been subsumed under and merged with the National Rural Employment Guarantee programme in the February 2006 budget proposals for fiscal 2006-07, and the total allocation to this is a mere Rs12.9 thousand crores, exactly one-tenth higher than in the previous year. This is in accordance with the prevailing deflationist sentiments of those controlling the government's finances and seeking to implement the BWI directives to reduce the fiscal deficit, but this continuing deflationist stance is detrimental to the effective implementation of the Act. The prognosis therefore remains far from encouraging: the agrarian crisis is not being addressed actively and the trend of increasing poverty depth is unlikely to be reversed unless public pressure is mounted to increase the funding of the NREG substantially to implement the Act.

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**POLITICAL PARTICIPATION AND
CHALLENGES OF NEW DEMOCRACIES:
REMARKS ON CHINA AND TAIWAN**

SEVERAL AUTHORS HAVE NOTICED the relationship between the internationalization (or the globalization) of the economy of a country with its democratization as an inevitable process. Nonetheless we can find important variations in this relationship that show, as in China, that there is not an inevitable relationship between economic liberalism and democracy. In the contemporary changing process in China towards an increased local electoral participation of citizens, not to be considered as democratization, the endogenous factors along with the prevailing of the authoritarian state weigh more. On the other hand, in Taiwan, the democratic process can be linked to the search for international legitimacy. Additionally it is important to consider the presence of a political and intellectual elite, educated in Europe and the USA that is strongly imbued in western democratic values, which has been in power since the early 90s. We are taken by these instances to the various forms that a political system can adopt with citizen participation, as Levitsky and Way have studied through applying several adjectives to democracy, marked by authoritarian traces, or through

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authoritarianism with some forms of political participation (Levitsky and Way, 2002, Pershing, 2004). The case of Taiwan leads us to the well known debate between procedural democracy and its efficiency in terms of its consequences as studied by Amartya Sen (Sen, 1995).

THE ROLE OF LOCAL ELECTIONS IN CHINA

The changes in the Chinese political system during the reforms can be summarized as the transition from a totalitarian regime to a single party authoritarianism. This last form has required to decentralize decisions and to introduce innovative ways of political participation.

In order to understand the political changes in China, it is necessary to consider first that as a result of the reforms, the complexity of the society has grown at great speed in the last twenty five years, in such a way that, today, roughly speaking, we find a well educated intellectual elite raised in the most sophisticated worldly thought trends, traumatized by the Tiananmen repression in 1989, alienated by its privileges, not willing to risk its status, co-existing with a rich middle-class which accepts that itself is a by product of the authoritarian and developmental regime and because of that is also unwilling to risks its favorable circumstances. They are in a melting pot along with a wide majority of farmers and urban population strongly oriented to the satisfaction of their own basic needs; with a group of internal migrant workers that is more than ten per cent of the population, excluded from development; with a middle stratus of cadres from the Communist Party that use their power to get material profit from the new conditions; and all of them led by a political elite that not only searches to preserve its power through the Party but that requires specific instruments of governability and legitimacy to guarantee the feasibility of the political system.

In terms of space there is an important sector of the population living in the urban communities of the oriental coast with high income and a cosmopolitan and consumerist culture coexisting with the majority of the population living with little resources and difficult information access in the broad central and western areas of the country. There is also a great diversity of ethnic groups in the scarcely populated extensive south-west, extreme west, and center north territories, which have different ways for relating to space, economy and politics.

The study of the actual Chinese political system reveals that while the political elite acknowledges that the country's severe inequality and corruption problems can be a real threat to governability, that elite is also forewarned by its own origin and nature to respond to this challenges within an authoritarian and single party frame. In order to face this situation, the new leadership has resorted, at least in the discourse, to instruments such as surveying functionaries and transparency and

has been using terms such as democracy and rule of law. However, the political elite has been clear about this matter: it moves within the frame provided by preserving the hegemonic position of the Communist Party, which is endorsed by the Constitution and other related Laws. In other words, the defense of the rule of law in China means the confirmation of the predominance of the Communist Party.

Therefore, these changes in the political discourse cannot be analyzed under the same lens as the meaning of the rule of law in other countries; instead, it has to be examined as an instrumental use of mechanisms that have been traditionally linked to democratic systems to help the survival of an authoritarian regime. In bringing together all these paradoxical elements we can search for the goal of citizen participation through voting in the local congress elections.

The first element that catches our attention from the new leadership discourse is their stress on the great problems of the country that are no longer submitted as contradictions but as imbalances. Those submitted more frequently are: the inequalities in income and poverty, the regional inequity in development, corruption and the excessive resource waste which is associated with environmental damage.

One of the more interesting issues of the political change in China is the direct elections in the lower levels of the government structure. Though those changes were already in 1982's Constitution they became relevant from the mid 90's onward. Besides their inclusion in the Constitution, the direct elections in China are supported by two important legal instruments. The elections for the National People's Congress and the People's Congresses of the lower levels are regulated by the Election Law of 1979. The direct elected village committees were regulated first by the Organic Law on Village Committees approved provisionally by the Standing Committee of the Six National People's Congress on November 24th, 1987. This Law was amended later and approved in its definitive form on November 4th, 1998 in the Fifth session of the Standing Committee of the XI National People Congress.

As a result there are several kinds of direct elections: the village committees, the people's congresses of townships and counties, the neighborhood committees and the popular assembly of districts and urban districts. These processes are also ruled by local regulations where the provinces have worked on them. In general terms these elections must follow the popularity principles, i.e. that all the legal age people can vote; equality, direct elections, secret ballots, multiple candidates, guarantee the right to vote and the supervision and recall of the chosen ones.

The urban equivalent of the village committees are the residents or neighborhood committees (*chengshi jumin weiyuanhui*) which go

back to 1954 when they were established to organize the urban residents that were not affiliated to a working unit. The law for urban elections was approved in 1989 and it was based on the experimental law of the village committees. Since 1999, the direct elections of these city-dweller committees have been in effect, when the Ministry of Civil Affairs selected and then the Party approved the experiment with a group of cities among which were Beijing, Nanjing and Chongqing. In cities with high unemployment and where urban transformations have changed—in some cases violently—the way of living of its inhabitants, these elections channeled the dissatisfaction.

Since the village elections were implemented, two positions arose in the party, on one side, the middle and lower cadres were against the law because it undermined the roots of their power; on the other side the leaders at the central power of the party defended the law as an instrument for recovering of legitimacy among the people, which could be read as the ideological commandment of “masses line”.

However, in practice, it was more relevant to maintain political control, avoid the popular unrest caused by the local authorities' abuses, and to guarantee the country governability. That is why, during the first period, the lower cadres of the party tried to grasp most of the village election positions, frequently using unlawful practices and causing local political tensions expressed in countless peasant protest movements.

The legitimacy crisis that followed the 1989 repression made the party leadership devoted to a big campaign to promote the rule of law which was systematized in the mid 90s. During this process the leadership reached an important consensus on governability, stability and unity of the country.

Given the aforementioned circumstances as well as its need for renewal and legitimacy, the Communist Party, after a thorough analysis of the situation, took a new position, which was posted in a document in July 2002. This document clarifies to the members of the party that they must respect the electoral laws and avoid imposing their own candidates. The document says;

It is advocated that candidates for secretaries of party branches shall run for village committee election first; after they obtain the approval from the people, they can be nominated as candidates for secretaries of party branches; should they fail to be elected head of village committees, they shall not be nominated as candidates for secretaries of party branches. Members of village committee can hold a concurrent post in party branches after s/he is approved by the inner-Party election. Members of village committees and village group leaders and

representatives of villagers can be admitted into the Party in order to infuse rural basic-level party organizations with new blood (Circular concerning improving villager committee election, 2002).

Direct elections in Chinese countryside have been observed by local and foreign Non Government Organizations and have been managed by the Ministry of Civil Affairs whose educational work is highly and widely recognized. However, the majority of these elections don't follow the law closely, but surveillance along with education has slowly shown their effect.

Meanwhile, in big cities like Beijing, these local elections have taken independent defenders of popular causes to local congress, and in some places local entrepreneurs have won elections to local representation. A noteworthy case was when Wang Youhua, brother of the former Tiananmen democracy activist and founder of the Chinese Democratic Party, Wang Youcai, was pressured by local government officials to withdraw his candidacy for the village chief elections in Liwu village committee in the east coast province of Zhejiang. (Asia Times, May 25, 2005) Through these examples we can state that the emphasis on the law and on the institutional reforms, such as local elections, can be mechanisms for a small change within the political practices and culture of the country.

During 2005 there were more than 300,000 local direct elections for village committees in 15 provinces, municipalities and autonomous regions. Since 1988 when the provisional Organic Law for Village Committee was approved there have been elections in the majority of the provinces and autonomous regions of the country. Up to 2005 more than 700,000 elected village committees had been established. Even though the law has been interpreted locally in many ways, these elections involve open nominations, secret ballots and more candidates than positions. According to the international observing agencies the first urban elections have been mainly free and transparent.

Since 1999 more than a dozen main cities have been selected to carry out direct elections of the neighborhood committees, the lowest level of municipal government. In 2005, after several experiments, the government decided to increase the number of cities that hold elections to choose their representatives in the local congresses. Among others these elections have taken place in Beijing, Shangyang, Nanning, Tianjin, Nanjing, Wuhan, Harbin, Jinan, Changsha, Yinchuan y Ningbo.

It is remarkable that in some cities even foreigners have been candidates as was the case in Pudong or the Taiwanese entrepreneur who contested representation in the local congress of Tianjin (People's Daily, October 23, 2005) In the same way experiments in consulting and transparency were registered in some Guandong districts, where officials

have begun publishing their budgets and employment policies. In 2003, in a district of Jiangsu, the local authorities held a public referendum so the residents could choose the worst official in each administrative department. As a result nine officials were suspended for six months.

It could not be said that the electoral laws are accurately enforced, in theory the elections are open and their limit is the formation of political organizations, the candidates must only represent the interests of their communities. One of the main problems of these elections is illegal vote induction. In this regard, Zhan Chengfu, director of the department in charge of the administration of the basic level of the Ministry of Civil Affairs said:

There is only one article dealing with the problem in the existing “Organizational Law for Villager’s Committee” and moreover it is in principle singular and vague in sense. There’s no definition on what is a bribed vote, nor is there any definite rule as regards how to deal with the problem and so it is somewhat difficult to handle the problem. Now what we can do is only to work out some rules and regulations on the basis as a related department, which can be used by local administration for reference. When these rules or regulations are testified to be correct and suitable in practice they can be taken as amendments for legislation. This is an accumulative process in the construction of a system (People’s Daily, 2005)¹.

Many scholars have interpreted the opening of the political system in China as an after effect of globalization. From my personal point of view, the local elections are an instrument that the authoritarian elite utilizes to face the generalized discontent of the population –resulting from the corruption of local officials– which threatens governability. In 2005 there were 87,000 officially reported “mass incidents”, which are in fact social protest movements. The factors that caused these changes appear to be completely endogenous and the Chinese elite confirms it. During an important political meeting to commemorate the 50th anniversary of the National People’s Congress, the President and General Secretary of the Communist Party, Hu Jintao stated “... history proves that blindly following western political systems would lead China to a dead end, and China’s current people’s congress system has strong vitality and great superiority”. The President also said:

We must be active in learning from all human civilizations, including the positive results of political civilization. But we will never

¹ About the legal problems of elections see also <<http://www.nanfangdaily.com.cn/zm/20050202/xw/tb/200502030042.asp>>.

blindly copy the mode of other countries' political systems (People's Daily, 2004).

NATURE AND CHALLENGES OF THE NEW DEMOCRACY IN TAIWAN

Taiwan requires a closer analysis because, from an institutional point of view, its democratic liberal system has been recognised worldwide as one of the most democratic countries. This process began with the end of Martial Law in 1987; however, the political opening can be traced back to 1972. In that year, the only party dictatorship of the Kuomintang, presented signs of opening alternated with ferocious acts of repression. These first political changes occurred as an answer to Taiwan's diplomatic isolation after being expelled from the United Nations in 1971. This international event undermined the position of the authoritarian government; from that moment on, and with growing intensity, some of the social forces began to express themselves such as: human and women rights or even early worker and student movements.

The death of Chiang Kai-shek in 1975 and, three years later, the rise to the presidency of his son Chiang Ching-kuo who was more liberal took place precisely when the pressure of the opposition groups was growing. On January first of 1979 another international event intensified the problems: the USA diplomatic recognition shifted from Taiwan to the People Republic of China, which meant another hard blow to the stability of the Taiwanese state. In December, some civilian groups led wide mass meetings in Kaohsiung, the second city on the island, that were followed by a brutal police repression. By the early eighties the existence of the group called *tangwai* was already evident; these were organisations outside of the ruling party that fought for the regime's liberalisation by imposing strong political pressure.

In March 1986, Chiang Ching-kuo announced to the KMT's central committee that the moment of leading the country to constitutional democracy had arrived. Consequently, he named a group of twelve central committee permanent members, including liberals and conservatives, to assess the situation and propose a strategy. In June, the group presented a six point program: carry out extensive elections to choose the central organs representatives, reform local governments, directly elect the governors and mayors of Taipei and Kaohsiung, simplify national security laws, legalise the new civilian associations and political parties, strengthen public order and fortify the work of the party.

The Democratic Progressive Party (DPP) –which was tolerated for some time– made its foundation public in September 28th, 1986. Even though, the ministry of justice pressed charges against it for violating Martial Law, the president mediated and lifted the Mar-

tial Law. In addition, he allowed the political parties that abandoned the communism and Taiwan's independency causes. The DPP carried out its first congress in November and adopted a Party constitution which supported in its documents –in ambiguous language that would not upset the government even more– Taiwan's self-determination and its return to the United Nations.(Clark, 2000). The DPP, still without legal recognition, participated in the legislative elections of December 6th, 1986, where 84 members of the Legislative Yuan and 73 members of the National Assembly were elected. The DPP won 21% of the votes. On July 15th, 1987, Martial Law was suspended and on October 14th Taipei allowed family visits to the mainland for the first time.

After Chiang Ching-kuo's death, on January 13th, 1988, the vice-president, Lee Teng-hui², rose to the presidency. Lee, as the first president born in Taiwan, started a 'taiwanisation' process within the government and proceeded to immediately dismantle the old structure of the state, brought by Chiang Kai-shek directly from China. Therefore, on March 2nd, 1988, the National Security Council requested the voluntary retirement of the members of the parliament elected on the continent during the 40's.

Along with this taiwanisation process of the government, Lee Teng-hui started extending democratic liberties. Thus on January 20th, 1989, more political parties were allowed, and on December 2nd –that same year– they were able to stand in the elections for the Legislative Yuan, the Provincial Assembly of Taiwan, Taipei's and Kaohsiung's Municipal Councils, and County Magistrates and Town Majors. The DPP won 35% of the votes and the KMT 60%. The National Assembly elected Lee Teng-hui president for a six-year term on March 21st, 1990.

The pressure for more reforms was expressed in mass meetings and President Lee decided to search for consensus among the island's different groups; so, in the summer of 1990 he called a conference on national issues, where the leadership of the KMT and the opposition achieved an agreement. During the conference the most important aspects on democratization were discussed, and the participants reached a consensus on the necessity of a political reform. Consequently, in April 1991, a constitutional reform cancelling some National Assembly prerogatives was carried out. An organisation devoted specifically to deal with Mainland related issues was also constituted. The same year, on December 21st, the elections for the National Assembly took place; the DPP obtained 24% of the votes

2 Mayor of Taipei 1978-1981, Governor of Taiwan Province 1981-1984, and Vice President since 1984.

and the KMT 71%. On December 31st, 1991, every Mainland-elected member of the National Assembly, the Legislative Yuan and the Yuan of Control finally retired.

Since 1991, the Constitution has been amended several times with the purpose of changing some foundations of the government structure and the electoral mechanisms. The acting periods of both the president and the members of the National Assembly were reduced from six to four years; the proportional representation was introduced in the Legislative Yuan and the National Assembly also. The president and the vice-president could be elected by direct popular vote instead of being elected indirectly. The president with the approval of the Legislative Yuan instead named the members of the Yuan of Control, that used to be elected by the Provincial Assemblies and the Municipal Councils, so this organism was transformed into a semi-judicial institution. Moreover, on June 7, 2005, the National Assembly was finally abolished by a constitutional amendment.

All these reforms implied a redefinition of relations with China. The new ascending Taiwanese elite wanted to abandon the reunification project and began constructing an all-Taiwanese political structure and a new form of nationalism. At the same time, informal channels of communication with the continent were open; travel, telephony communication, and triangular commerce increased. At the moment, the intensification of the economic relationship has made the island highly dependent on its commerce with the continent.

It is important to emphasise that the opening process was not only a product of the island's domestic social forces but, also, of the relationship with China and the international context. China's economic reforms, initiated in the late 70's, were already consolidated with a clear capitalist bias which, together with the dismantlement of the Soviet Union in the early 90s, made the phantom of communism vanish. For the KMT the only recognised enemy had been the Communist Party, hence the island's economic prosperity, the success of anticommunist education and the rise of a particular society, were the reason why the KMT did not see a threat in the domestic opposition forces. Besides, the extreme isolation of the island after the shift of the American diplomatic recognition, convinced the KMT leadership to undertake the political opening to assure some international legitimacy, especially because in the 80's it was already clear that the Chinese Communist Party wouldn't choose the political opening.

Simultaneously with the creation of political parties, the contained elements of a highly educated civil society began to be expressed in publications and in the formation of new social organisations out of the KMT's control. (Hu, 1994:479, 481, 485-6) Likewise, in

January 1994, the Law of Universities granted to those communities a bigger participation in the management of their own issues.

Another remarkable element of Taiwanese society is the civil organisations or foundations devoted to the achievement of community goals. Many of them played an important role during the Martial Law period; however, their independence was questionable. Over time, those foundations acquired a bigger role and began following their own objectives, aside from the state. (Hsiao, 1994, pp. 393-399) Most of those foundations are oriented to philanthropy, education or culture and only 3.6% of them are devoted to social activism; most of them are privately financed and depend neither on government nor on big corporations.

The foreign educated Taiwanese play an important role in the political transformation. In Taiwan, until the 80's, the tendency was to send students abroad, mostly to the United States, to specialise in post-graduate studies. At the beginning the return rate of those students wasn't very high, due to the economy's incapacity to incorporate them. (Liu, 1981) Since the 90's, however, the return of highly qualified personnel grew dramatically because of the country's improved conditions, such as better salaries, political liberties and a special incentive system created by the Commission for the Youth.

ELECTIONS AND POLITICAL PARTIES

The transition from an only party dictatorship to an electoral democracy in Taiwan initiated when the DPP managed to participate in the 1986's legislative elections. Therefore the consolidation of this process has been parallel with free trustworthy elections and the strengthening of the parties. It was Lee Teng-hui who organised the first direct presidential elections in 1996, where Lee Teng-hui himself won with 54% of the votes. The most important highlight of this transition, though, is the second direct presidential election, on March 18th, 2000. For the first time, the elections were very hard-fought and also they were characterised by splits in the two most important parties. Five candidates contended for the presidency.

Lee Teng-hui imposed Lien Chan, the regime's vice-president, who represented the continuity option, as the Kuomintang candidate; nevertheless Lien tried to put some distance from Lee's radical positions on the State/State relation formula with China, that irritated Beijing in July, 1999. The candidate for the Democratic Progressive Party was Chen Shuibian, who was born in Taiwan from a poor peasant's family and was known for his inflexible position against corruption. He dragged along throughout his whole campaign the burden of his party's radical posture on Taiwan's independence, this implied the support

of the Taiwanese population which preferred independence, but also brought to him Beijing's menaces. James Soong, a former prominent member of the Kuomintang, decided to run as an independent candidate in November 1999, as a response to the authoritarian imposition of the president's candidate in his party. Regarding the China issue, he represented the position of the so-called Mainlanders, that is to say the most favourable for Beijing. These three were the most voted candidates, but also running was Li Ao, a leading intellectual from the New Party –an earlier Kuomintang split–, who surprisingly called on his followers to vote for Lien Chan; and Hsu Hsin-liang, who ran for a little group that had broken away from the DPP.

During the electoral process, it was difficult to predict who of the three strongest candidates would win the elections; the polls gave very similar figures. In general, the three government options didn't differ substantially from an ideological point of view or on their proposals on Taiwan's economic and social development. Two elements appeared as the most important issues during the campaigns, the relations with the People's Republic of China and the criticism against corruption; it seems however, that among the citizens the candidates' background and personality were more relevant. This element, which can lead to the citizen's preference for charismatic leaderships, may be very important in the dawn of a democratic system.

Surprisingly for the ruling party, the election results were very unfavourable. Chen Shui-bian, for the DPP, obtained 39.3% of the votes, James Soong 36.84% and Lien Chan from the KMT 23.1%. This meant a crushing defeat for the Koumingtang, not only in quantitative terms but also for the certainty that they had put on winning the elections no matter what. Still, when we consider the ideological affinities and the common origins of the losing candidates and add up their votes, we can observe a clear social tendency akin to KMT propositions.

Many elements explain the success of the Democratic Progressive Party's formula, Chen Shui-bian to the presidency and Anette Lu to vice-presidency. First, we have to consider that they were helped by the KMT's break up and the attacks between the two candidates, Lien and Soong, who each considered themselves as the great and only contender. That dispute only served to expose the past government corruption, because Lien Chan was the vice-president and Soong had been the first and last directly elected governor of the Taiwan province (1994-1998), making their mutual attacks based upon their respective administration's flaws. As for Chen and Lu, they were leaders emerging from the civilian struggle for political rights in their own party. The fact that 48 year old Chen came from a poor peasant family already marked a distance from the old political elite. Besides what was important for voters

was his well-known inflexibility –as Taipei mayor– in the fight against corruption, the system of privileges and the administrative inefficiency. All of this was very appealing for a highly educated Taiwanese society, which no longer believed in promises and coercion –old Kuomintang techniques. 55-year-old Anette Lu, was formed in the feminist struggles of the 70's, she was imprisoned for fighting for human rights and is very popular among the female population.

It is difficult to judge the relevance for the elections of the traditional Democratic Progressive Party posture on Taiwanese independence. China tried to influence the elections by different means; on February 21st, the Beijing government published the White Paper on the Taiwan issue, in a very threatening tenor, where a new condition justifying the use of force against Taiwan was added: the “indefinite delay on the conversations about reunification”. Besides, the Chinese leaders' harsh declarations on the possibility of the use of force were given great publicity. Obviously, this affected the Taiwanese society since, despite government intervention; Taipei Stock Exchange's Taix index lost 7.1% in the week prior to the elections. This could have also influenced the surprisingly high number of votes for James Soong, who represented the most moderate position about China. After the publishing of the aforementioned White Paper, the Mainland Affairs Council of Taiwan conducted a poll demonstrating that the publication had had the opposite desired effect.

It seems that this crucial issue wasn't determining as the contenders didn't show radically different positions regarding China. The following factors were the ones deciding the election in Chen's favour: first, the KMT's division and the focusing of the old party's campaign against its former affiliated, James Soong; second –but not necessarily less relevant–, the vote for change. Also important were Chen's and his partner Anette Lu's personal characteristics, the Democratic Progressive Party's promises of fighting corruption and the public support to Chen by some businessmen.

Decisively, those elections were crucial for Taiwan. On the one hand, they offered the chance to test relations with China of the new Taiwanese nationalist elite that has proved to be less radical than Lee Teng-hui, and on the other hand it has led to a readjustment of the political forces. This last process began with James Soong's departure from the Kuomintang and his unexpectedly high number of votes. Besides, when the electoral results were known the KMT militants organised protests, some of them violent, to demand Lee Teng-hui's resignation from the party's presidency and his recognition of responsibility for defeat. Lien Chan resigned from the Kuomintang vice-presidency and later on Lee Teng-hui resigned from the party presidency, which didn't satisfy his angry party fellows.

The Kuomintang immediately undertook a self-criticism process and a structural reform. In the provisional meeting of the 15th Congress of the Party, three months after the elections, Lien Chan was elected president and he nominated five new party's vice-presidents, including a woman. Subsequently, in the fourth plenary session of the 15th Central Committee, 31 new members of the standing committee were elected; none of them was imposed from above. Moreover, the party's constitution was reviewed and the direct election of the future president by all party members was introduced.

Immediately after the elections, Soong's followers insisted him to create a new party. This is the reason why he founded the People First Party (PFP), which won over many KMT and New Party legislatures, becoming the Legislative Yuan's third force.

Despite its reforming attempts, the KMT drowned in a new crisis after losing the 2000 presidential elections. It was not only affected by the strong division of James Soong's departure and the foundation of a new party, but also by the new government's fight against corruption that has revealed many details on the KMT members corruption, which was no surprise to anybody, but hadn't been cleared up. Besides, in the December 1st, 2001 legislative elections it was defeated again by the DPP, which led KMT to establish alliances with James Soong's party.

In the 2004 presidential elections, the KMT lost again. However, the narrow margin giving triumph to the DPP –0.22 percent– and the severe accusations against the winning party and its candidate for the suspicious financing of their campaign which caused a serious discredit to the DPP in its second period, have created an advantageous situation for the KMT which recovered its large share of votes in December 2005 local elections. This party's recovery is due considerably to the continuous corruption scandals surrounding the DPP, which in its second period in government has succumbed to some corruption practices that were the KMT's prerogative in the past. Also important in this recovery has been the charismatic leadership of Ma Ying-jeou, the Taipei mayor. At the end of June 2006, the KMT and the PFP tried to pass a motion in congress to organise a referendum to recall President Chen Shui-bian amid a swirl of corruption scandals embroiling his wife and son-in-law. 119 of the legislature's 221 members, well below the two-thirds majority needed to force a referendum, backed the motion. The strong opposition in the congress has practically paralysed many actions in Chen's government. Besides, the KMT leaders have reached an important approach with China, at a time when this country was approving laws that set up its intention of making a military intervention on the island if it declares independence.

On November 3, 2006, Wu Shu-chen, President Chen Shui-bian's wife, and three other high-ranking officials of the Presidential Office were indicted of corruption. Consequently, even prominent members of DPP have criticized the President. Since the beginning of that year a prominent leader of DPP, Shih Ming-de, has been in open opposition to the President Chen. In September he launched a campaign called "Million voices against corruption. President Chen must go". Tens of thousands of people demonstrated in the streets wearing a red shirt asking for the resignation of the President. This movement, supported by the KMT, maintain a sitting on the Main Train Station of Taipei, every day from 6 to 10 pm, asking for the resignation of the president.

TAIWANESE SOCIETY AND ITS POLITICAL PROCESS

One element characterising Taiwanese society is its dynamic class mobility, as a product of development and economic opportunities. The general conditions encouraged by the State that have helped this social dynamism consist of efficient land reform, strong investment in education, industrial development and infrastructure construction. An interesting factor bearing upon social mobility is occupational crossing; many corporate employees have also small family assemblage companies that subcontract with big corporations. In the same way, because of its high level of information, people take advantage of the financial offerings so their savings grow fast with highly profitable investments.

All these elements have contributed to achieve a relatively fair income distribution that gives a sense of being constantly improved. However, due to the companies' internationalisation and the investments placed abroad, when it is expressed in technical figures, this fair distribution reflects a different situation. During the initial period of social transformation and accelerated economic development, the income disproportion dramatically decreased because of the land reform in the 50's. Nonetheless, the economic transformation toward bigger capital investment and technology exports, initiated in the 80's, has –marginally– increased inequalities. In 1953, the Gini Coefficient was 0.56, by 1964 it decreased to 0.33 and by 1970 to 0.30. Later on, the Gini Coefficient increased, from 0.277 in 1980 to 0.316 in 1993, which is not directly perceived by the population for it is a reflect of economic internationalisation.

This situation, combined with other social traits, has prevented severe class conflicts on the island. The economy's 'family factor', is another social element –hard to measure– that has also avoided employer-worker conflicts. A great portion of small and medium size

companies sustaining the island's economy were family businesses employing preferably relatives and other people close to the family. Likewise, from the mid 60's to the mid 80's, the demand of work exceeded the supply, which forced businessmen to improve the working conditions to attract possible employees.

Until the end of the Martial Law in 1987, Kuomintang exerted a corporative control over labour and it repressed every class conflict led by workers. Unions were utilised as a means of control rather than serving to protect the workers' interests. This has changed and several independent unions, along with public manifestations and labour disputes have emerged since 1987. Nevertheless, the workers' movement is not an important political player because of the lack of severe economic contradictions, the existence of real options for increasing income and the people's tendency to combine different economic activities. It is also essential to consider that the Kuomintang –which held the government until May 2000– took political measures to provide social welfare, as well as redistribution policies which took over some goals of the unionists. The party's corporative tendency also reached out to the business sectors; by means of state/private company joint investments, and by using regulations and its fiscal power, the Kuomintang with its political power controlled the most important businessmen. This tendency changed with Lee Teng-hui's regime, which allowed important businessmen, many of them of Taiwanese origin, to reach political power; and through different ways they have occupied legislative positions, a phenomenon that is not without its corruption accusations.

In general, we could distinguish Taiwanese society for its middle class predominance. It is composed of small and medium size businessmen, intellectuals, technicians, administrative workers of every level, et cetera. Due to the dramatic economical and political changes on the island, we can consider it mostly a second-generation middle class, characterised by a liberal political positioning, the supporting of democratisation and an open attitude toward the mixing of their different groups of origin.

From the social structure perspective, the most important cleavage that we can find on the island –for its complexity– is probably the one dividing the “Taiwanese” from the “Mainlanders”. It is an inherited identity, and it tends to dissolve. This division refers to people that arrived to the island before 1945, and to their descendents; but most of them share a common origin and the same culture. Their difference lies in the fact that Taiwanese lived under Japanese rule for about 50 years, while mainlanders arrived later to the island and settled in as a political class, monopolising key positions in the state structure, in the

ruling party and in educational and cultural institutions. They imposed things such as the Mandarin Chinese as the spoken language, or even a national concept based on a government that, in theory, controlled the whole of the Chinese territory. Another important event that contributed to widen this division was the repression against the people opposing the occupation troops, which led to the massacre of about 20,000 people on February 18th, 1947. This event is still remembered on the island and is the symbolic axe of a Taiwanese identity “oppressed” by the mainlanders. It is estimated that by the time of their arrival, the mainlanders –including administrative workers, military personnel and political refugees– were about one and a half million people; almost 20 % of the island’s population in 1949. By the mid 60’s they represented 15% of the island’s total population –probably 30% of the people living in urban areas. Nowadays, the estimation is that they amount to slightly over 10% of the population.

Regarding the work division, the separation can be expressed in the following way: relying on family labour and land possession, Taiwanese focused on productive activities, while –as we said before– Mainlanders, in general, occupied the state’s and the Party’s administrative positions as well as the management of new companies, settled on the island thanks to the state support and foreign investment³.

Historically, these social boundaries have been expressed in the principal political parties, and they are still a fundamental issue in new political associations. Mainlanders kept their prominence in the Kuomintang as the DPP have assumed the cause of Taiwanese vindication; so Taiwanese represent the majority of its leaders and its followers. It explains why a Taiwanese president of the Kuomintang was such an important element on the structural change of these groups’ relations. The Mainland sectors inside the KMT that think that they have been left out by their leaders, founded another party in 1993, the New Party, which keeps a detailed proposal for trans-strait relations on its program platform and, moreover, its members pursue associations with the continent. The identity issue was also behind the foundation of the Taiwan Solidarity Union Party, in August 2000, which states in its platform the trans-strait relations as one of its main political concerns. This party grouped the KMT dissidents –who observed, after the electoral defeat, a change of direction on the taiwanisation tendencies imposed

3 Besides this division, it could be added that Taiwanese establish some group distinctions between the hokkien –representing the majority– and the hakka; though they both come from regions of the same province of Fujian. Likewise, they make a difference between the people coming from Guangdong province. These groups present notorious linguistic differences.

by Lee Teng-hui-, and also some of the DPP dissidents –disappointed by president Chen Shui-bian’s moderate policy towards China.

From my observation, in spite of the basis of this social division being rather weak, it is present in almost every group. It is a division encouraged by DPP as a way to present it self as a real alternative to KMT. Moreover, for many people it is a way to express their remorse for decades of repressive government of KMT. In other words, the social trauma of the repressive KMT government has been channelled to this “social division”. Contrary to other cases, the repressors have not rendered judgment.

TAIWAN DEMOCRACY’S LESSONS

The DPP’s victory over the Kuomintang, in the presidential elections of 2000, brought a regime shift that was confirmed the following year, when the KMT lost its majority in the congress. Although this has fulfilled the expectations on the democratic transition of those prioritising the change of party in government, there are still some elements of the political system that can be considered problematic for the consolidation of democracy in Taiwan.

The state structure inherited a very close bond between the executive and the legislative powers as a by-product of a long period of a single-party administration. The DPP’s government agenda has suffered some paralysis due to the opposition alliances in the Legislative Yuan that often frustrate their actions. This has shown the necessity for some political reforms and constitutional amendments allowing a definition of the political system towards a new one –perhaps one that, structurally, gives more prominence to the president; the KMT has systematically opposed this. On the other hand, inside the DPP, some disagree with the fact of having the president as the head of his own party, while others praise the system’s advantages for building more cohesive action in the congress. The conflict between executive and legislative powers not only creates economic and administrative paralyses, but it also affects the prestige and significance of democracy as an efficient political system among social sectors such as entrepreneurs and the like. The political elites from all parties do not consider the consequences of this issue on their agendas.

While in the past the core problems of the local elections were traditional local loyalties and vote buying, Taiwan has now entered a corruption wipeout process. The problem today is the way political parties are considering local election processes. For many of them these elections are only important in terms of people’s preferences toward the next national elections, especially the presidential election,

without considering that local elections may play an important role in the political education of citizens in new democratic systems.

There is a growing lack of trust in political parties, which is expressed in a growing number of candidates independently running for elections. Frequently, political party campaigns are based on a series of corruption scandals or on the personal features of the candidates. Quite often ideological considerations are neglected in order to facilitate inter-party alliances otherwise impossible. Small political parties usually “sell” or exchange voters’ preferences to negotiate and ensure political positions with big parties. All these abnormalities along with the frequency of election processes have brought a sort of “political fatigue syndrome” among voters, which could in the future be expressed by staying away from ballot boxes. It can also be expressed by looking for charismatic leadership outside political parties, a person who may not always have a strong commitment to democracy.

It is relevant also to consider the importance of the role played by the media along with the influences of local factions and interpersonal relationship networks and their effects in new democracies’ political culture. In a situation where candidates and parties are only looking for votes, they tend to sell themselves as any other commodity. Consequently, a kind of show business has become part of this new “pop electoral culture”. Therefore, expensive and efficient campaigns can result into catapulting not precisely the best candidates to power, while the scandal-hungry media avoids debating the important issues for communities.

There is a strong tendency to “personalize” leadership. Influential leaders usually abandon parties when they do not obtain the nomination they seek. Then they run as independent contenders or establish a new small party to be able to negotiate with bigger organizations. As a result, voters have to choose from a number of parties or candidates offering similar ideologies and platforms. They usually end up voting for the most charismatic candidate or supporting whichever party seems stronger.

Considering the case of Taiwan, I can conclude, that democracy is more than copying procedures and institutions. The political culture is particularly important, new democracies still need to go through political education in order to create real citizenship. The role of political parties in this process is crucial. However, political parties focused only on votes seem to neglect their role in political education. This situation tends to undermine the prestige and significance of democracy in societies where authoritarianism is not so far away historically speaking.

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