Moving the state away from the economic domain—'de-statization' of economies— is a major tenet in the new creed of capitalist growth formulated by international financial institutions for the developing world. Indeed, the dismantling of the erstwhile public sector has now become a contentious issue in Sri Lanka and elsewhere in the context of the new and vigorous intervention of the World Bank and the IMF in 'reforming' developing economies. In the ideology of 'free-market capitalism' there are also myths—or lies, in plain English—propagated. One such myth posits that the 'free' market, freed from the state, has achieved miracles in promoting growth and development in newly-industrialised countries. The following article, which appeared in the U. S. journal *Lies of Our Times (LOOT, in short)* examines this widely made claim.

The "Success" of Free Market Reforms

Arthur MacEwan

In a July 8, 1991, front-page article in the *New York Times*, Sylvia Nasar reported on "a powerful new economic pragmatism [that] is sweeping the Third World capitals from Brasilia to Bangkok." This new "pragmatism," according to Nasar, involved "such changes as allowing market forces to flourish free of government restraints, abandoning fiscal and monetary policies that were politically motivated but economically unsound, and opening borders to foreign goods and investments."

Nasar also claimed that "if these changes take root and spread, the four billion people who live in the developing world could enjoy a better standard of living." To buttress her case, she reviewed recent short growth spurts in several countries that have adapted the sorts of economic changes she advocates. She included Mexico and Chile on her list of success stories, and of course South Korea as well.

There is no doubt that the kind of policy changes Nasar described are taking place in numerous Third World countries, and that officials are singing the rhetoric of "free market." But is there reason to believe that the results will be anything like what Nasar suggests - either for economic growth or for the welfare of the people?

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The South Korean Exception?

Nasar herself seems to have recognised that something was wrong with her story. South Korea, the most marked success story of recent decades, expanded its economy with heavy government intervention, including an industrial policy that would make the free marketers cringe. So in her July 12, 1991, story, "Industrial Policy the Korean Way," (*New York Times*, p. D2) where she claimed that Korea really did fit with the approach of her free market reformers, Nasar alleged that Korean intervention worked because it was "market friendly," "outward oriented," and "less pervasive than appears at first glance."

Yet calling government intervention by some other name does not really change the reality. Nasar - through no oversight, we may presume - excluded Alice Amsden from her list of those interviewed. In *Asia's Next Giant Step: South Korea and Late Industrialisation* (Oxford University Press, 1989), the most important and widely acclaimed book on the Korean economy of recent years, Amsden wrote (p.139):

> Korea is an example of a country that grew very fast yet violated the canons of conventional economic wisdom .... In Korea, instead of the market mechanism allocating resources and guiding private entrepreneurship, the government made most of the pivotal investment decisions. Instead of firms operating in a competitive market structure, they each operated with an extraordinary degree of market control, protected from foreign competition. Nevertheless, most economists who recognise these realities [including those on Nasar's interview list] greet them with an unfailing faith in market laws. They suppose that while state interference in Korea is pervasive, the economy operates with a set of relative prices that is not greatly distorted [*i.e.*, the government is "market friendly"]. In fact, little evidence supports this presumption.

Not only Korea, but the greatest growth success of the post - World War II era, Japan, followed policies directly at odds with what the new free-market "reformers" are advocating. In Japan, as in Korea, the government severely restricted the role of foreign investors from the U.S. and elsewhere, bringing in technology through licensing arrangements that placed control, and ultimately profits, in the hands of national firms. Also, each of these countries limited imports and manipulated the value of its currency to assure a strong demand for its exports.

Yet there was really not much unique or new in the foundations of the Japanese and Korean accomplishments. Virtually every advanced capitalist country built its economy on the basis of a strong role of the government, which included restricting some aspects of its →

involvement in the international market. Before 1800, Alexander Hamilton, the first U.S. Secretary of the Treasury, advocated a policy of protecting the country's infant industries (primarily from British competitors) as a means to spur economic development. The great industrial expansion after the Civil War was accomplished when northern industrialists got the tariff they had long advocated. German economic success during the late 19th and early 20th centuries involved an even more thorough role for the government.

Britain, as the first industrial power, may be the single example that comes closest to fitting the free-market model. British growth took place, however, when there was hardly anyone else from whom British industrialists needed protection. Also one wonders what might have happened to British economic expansion in the absence of empire and the British navy, hardly parts of the free-market package touted for today's aspiring developers.

Moreover, while programmes built on government intervention undoubtedly ran into trouble in many Third World countries, interventionist policies also could claim substantial growth success. For example, it was not so many years ago that Brazil was praised as accomplishing an economic miracle. That "miracle" was based on a military dictatorship that intervened heavily with industrial policy and control of foreign trade. Even though Brazil was relatively open to foreign investment during the military era, the government acted to direct that investment, force partnership with national capital, and reserve certain sectors for Brazilian firms.

THE MEXICAN EXAMPLE

Mexico, too, in spite of its near collapse in the 1980s, accomplished four decades of extremely rapid growth under a regime of state-led expansion. The three years of moderate growth that Nasar cited as evidence of the success of Mexico's current free market policies hardly match up to the earlier era.

In any case, the Mexican experience of recent years is useful in putting to rest Nasar's claim that free market policies may improve the living conditions for the masses of the people in the Third World. The ground has been paved for those policies by a 60 per cent decline in the real value of the Mexican minimum wage between 1976 and 1990. Also, Mexico's increasing orientation toward foreign trade has destroyed the country's food self sufficiency, and small farmers, unable to survive in the face of the influx of foreign food grains, have been forced off the land and into the ranks of the urban unemployed. The reduction or elimination of government social welfare programmes, part of the package of free market "reforms," has further contributed to the decline of living standards in Mexico.

Mexico's growth success of earlier years was also associated with extreme inequality, but current policies are making a bad situation even worse. Moreover, while corruption was rampant in the earlier era, the new policies seem well-designed to assure that whatever gains do come from free market policies will go directly into the hands of the rich and well-connected. As *Business Week* concluded in Stephen Baker's July 22, 1991, report on "The Friends of [Mexican President] Carlos Salinas": "The betting is that Salinas will succeed in attracting foreign capital while keeping the country's jewels, from the banks to the precious oil company, in Mexican hands. Salinas, a shrewd calculator, knows better than to put his powerful friends out of business" (p.40).

With regard to their impact on the welfare of the masses of the people, Mexico's new policies are not anomalous. Free market reforms demand that each country push down wages so that its goods can compete in world markets and so that foreign investors will be attracted. The reforms also demand the reduction, if not elimination, of social welfare programmes. If all this implies that the free market policies must be accompanied by military repression, so be it. It is no accident that Chile is high on the list of supposed free market success stories.

Historical experience and current reality notwithstanding, the claim put forth by Nasar and the economists she likes to quote may come to pass. Free markets and economic openness may, for the first time in history, bring great success and prosperity by the year 2000. That year, as many others believe, may also bring the Second Coming of Christ.

Courtesy: ***Lies of our Times***, September, 1991.

The following is the text of a statement from the University Teachers' Association (University of Kelaniya).

The brutal murder of 26 year-old Maduwanthi Gunawardene, final year Arts student at the University of Kelaniya, was unanimously and vehemently condemned by the University Teacher's Association of Kelaniya. A resolution to this effect was passed at the recent Annual General Meeting of the Union.

The Union expressed its deep distress and shock at this inhuman act which goes against all norms of civilized human behaviour.