SOCIAL BASIS OF ECONOMIC DEVELOPMENT

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A note, even though brief, on Dr. Lal Jayawardena's article entitled 'Becoming an NIE: A Strategy for Sri Lanka' appearing in the March/April issue of *Pravada* is in order. Dr. Jayawardena is one of the few Sri Lankan economists who have won world-wide recognition; he was, until recently, Director of WIDER, a research institute that has, under his initiative, conducted research programmes in a wide range of fields in economics. One such programme focuses on Stabilization and Structural Adjustment Programmes (SSAPs) and on how SSAPs can be made more effective than they are at present. Rudigar Dornbusch and others have made valuable contributions to this programme and have demonstrated that some of the crude formulations of neo-classical reasoning do not hold good in respect of today's underdeveloped economies. I agree with some of the suggestions made by WIDER, UNICEF and the international NGOs, but their approach is excessively technocratic. The same kind of approach, in my opinion, can be discerned in Dr Jayawardena's recent article.

I shall argue that what we need is an alternative to the SSAPs. In the present world context, the alternatives may not, in their outward appearance, look qualitatively different, and the shift from one alternative to the other may appear easy. In fact, there is now a growing consensus, not on the 'market friendly approach' to development as the World Bank Report (1991) implies, but on the effectiveness of the market at least in short-term resource allocation and on the necessity of integrating with the world economy. These two aspects were implicitly or explicitly denied by the proponents of dirigiste policies in the 1960s and 70s. The consensus on the effectiveness of the market means that the mechanism has to now play an increasing role in any alternative programme of development; similarly with the "delinking thesis', which is considered highly utopian in the present world context.

However, the marxian thesis of the social basis of development and of inter-class and intra-class relationships which condition the market mechanism is still valid. The technocratic approach neglects these aspects of development processes.

The specific feature of modern economic growth is that it is essentially an outcome of a continuous and self-sustained process of increasing the productivity of labour. The World Development Report of 1991 has emphasized only one aspect of this process, namely, the orientation of production towards a more open and competitive market. But this is only one prescription a la Adam Smith. The second, which seems to have been forgotten entirely in the development discourse, relates to the question of how to maintain a proper balance between productive labour and unproductive labour. Both prescriptions have a social dimension; the first is linked with the process of primitive capital accumulation i.e. the formation of modern class structure and the second with the subordination of merchant and usurious capital to productive capital (the transformation of antediluvian forms of capital to modern forms of capital) through inter-class competition and conflict. The second process, usually occuring when development reaches a certain stage, began in the early nineteenth century in Great Britain, under the Third Republic in France, in the last decade of the nineteenth century in Japan and under Park Chung Hee regime in South Korea.

The role of the state has undergone a significant change with these changes in the intra-class relations. The interventions of the state became not only market-friendly but also showed a strong bias towards productive capital because of its innumerable links with the capitalist class engaged in productive investment.

The technocratic reading of history separates some of the quantifiable elements of historical processes such as capital formation as a percentage of GDP, the degree of marketization/state intervention and suggests that these elements be re-introduced. Dr. Jayawardena's comparisons of Sri Lankan figures with East Asian figures seem to have followed this same logic. Public investment in infra-structure development, human capital formation and technology development, though important and necessary in certain instances, will not by themselves eliminate the bottle-necks on both supply and demand sides and resolve the problems of development. The best example is India; it has the third largest technically skilled labour force but is still unable to capitalize on it fully. In some instances, statistical comparisons may be misleading. Though Britain invested only 5 per cent of its GNP in the first phase of the Industrial Revolution and France 7-8 per cent and Germany about 10 per cent in the initial periods of their industrialization, no one can argue that this level of investment is adequate for the industrialization of any of today's underdeveloped countries.

It is not the absolute scarcity of capital which stifles the development process, but the relative scarcity of capital in the productive sectors due to the movement of surplus away from this sector. The creation of a helpful environ-

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ment through infra-structure development, human capital formation and technological improvement will definitely help to reverse this situation since they increase labour productivity/profitability in productive sectors. However, the sectoral rate of profit depends not only on the amount of surplus generated in the sector but also on two other factors, namely (1) the ability of economic agents in unproductive sectors to appropriate / expropriate a significant portion of the surplus generated in production through rent, interest, commissions and commercial profit, (2) the amount of 'imported surplus' (in the form of foreign aid and remittances) and its distribution. These factors are conditioned by the relative position of classes and sub-classes in the class configuration.

This issue Dr. Jayawardena has not dealt with in his long essay. In order to make the system "production friendly", positive actions which, as Dr. Jayawardena notes, not only go far beyond "the minimal activism" advocated by the market-enthusiast, but may also conflict with some of the specific principles of the "market friendly" approach, are called for.

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