

Rethinking Socialism for Democratic Developing Countries

Wahiduddin Mahmud

Good morning. Thank you for inviting me to deliver this lecture and my apology for this rather pretentious and intimidating title of the lecture. I am even more intimidated by the presence of respected Professor Rehman Sobhan, whose name will readily come to mind if one is to look for someone to be invited to talk on this topic.

My talk is mainly based on a paper I have written for the BIDS Bangla journal; an extended version of this paper will be published this month as a Bangla book.

To start with, the constitution of Bangladesh has socialism as one of the three guiding state principles, so has India since 1971, Sri Lanka since 1978 and Nepal since 2015. There a number of countries across Africa and South America where socialism is either in the constitution or as a principal state policy. The problem is, the idea of socialism is quite ambiguous and can be taken to mean many things. Algeria, for example, has “Arab socialism” and during the so-called Pink Tide in South America, governments in countries like Equador, Bolivia or most recently Brazil with President Lula has been democratically elected with the explicit agenda of socialism.

Let me very briefly touch up on the origin and the evolution of the idea of socialism in these post-colonial developing countries outside the communist bloc. It perhaps started from India, where Dr. Ambedkar, the main author of the constitution, was a strong believer of social equity and justice. However, Nehru, with advice from P. C. Moholanobis, was more inspired by the industrial success of

the Soviet model of centrally planned controlled economy. The policies pursued were those of substantial public ownership and extensive controls on trade and private investments. The idea of socialism in Bangladesh's First Five Year Plan was in fact much more radical, for which I can simply refer to Professor Sobhan's second book of memoirs.

Then came, initially for some valid reasons, the era of World Bank-IMF supported market-oriented policies of liberalisation and privatisation, which later on led to a rethinking of these policies. The World Bank itself admitted in a publication in 2005 that the same liberalisation policies led to different results, some quite adverse, depending on particular country circumstances, while the same results may result from alternative policies.

The Pink Tide of socialism in South America that I mentioned reflects is a reaction to a kind of market fundamentalism embodied in the extreme form of liberalisation policies, and has therefore been named as "post-neoliberal socialism".

Let me now make some rather sweeping comments in order to come to the main points I would like to make in this presentation.

The fall of Soviet Russia and China's switch to market economy have shown the failure of both centralised command economy and communist agricultural system. The failure was reflected in the Soviet Russia in the daily queues for essential livelihood items in spite of great achievements in science and technology. The great famine in China during 1958 to 1962 and frequent agricultural disasters in Soviet

Russia also showed the limitations of the collectivist farming model, although supporters of Soviet communism worldwide used to cite bad weather as an excuse.

There is one interesting anecdote about how the Soviet type centralised command economy can mess up the allocation of resources by providing wrong signals: machinery arts made in Soviet Russia used to be heavy, but that was not to make them durable. The factory managers were given annual targets of production in terms of total weight, and the managers in turn used to fulfil the targets or take credit for even surpassing the targets by making the machine parts heavier than needed.

On the other hand, there are discontents with the contemporary global economic order with its supremacy of the market, driven by the interests of the multinational companies and with unprecedented plenty amidst poverty and increasing concentration of wealth. While the market economy has become the dominant model for our societies, it is regarded with widespread distrust mixed with outrage or fatalism.

To sum up from the experience so far: There seems to be no alternative to using the forces embodied in the market system, but there is also a need to curtail excessive concentration of wealth which is not only unjust but also is an impediment to implementing social policies to benefit the poor. And, there is the continuing debate about what should be an appropriate role of the government in pursuing socialist goals as well as market-driven economic development.

So, what do the contemporary developing countries then mean when they include both democracy and socialism in their constitution or state policy? What are these socialist goals, even if these exist only on paper and not reflected in practice?

There is the broad idea that the basic needs of all citizens for food, shelter, health and education must be fulfilled, that decent employment opportunities will be available for the entire labour force and that a universal social security system will be in place. There also the goal of establishing a just and equitable society, although the meaning of that is rather vague. Even moral philosophers have no unique idea of social justice. Perhaps, the most relevant conditions for a just society come from the philosopher John Rawls, which are, first: all citizens have equal opportunities, and second, there must be additional support for the most disadvantaged. The second condition is important, since even if there is public provision for, say, universal quality education for children, a family lacking in basic means of living may not be able to take advantage of this opportunity.

As regards the democratic values of individual freedom and human rights, these values are important on their own right, but there is also an economic ground for upholding such values. Broad-based entrepreneurship may flourish more in a liberal congenial environment than under a fiercely ruthless regime.

Let me now digress a bit to discuss the idea of Social democracy in the industrialised West. Within the left-of-the-centre in the political divide in those countries, there are those called social democrats; they espouse the so-called Nordic or Scandinavian model of social democracy, Norway being an ideal example. Apparently the model looks ideal in achieving a combination of democracy, market economy and the socialist goals I have mentioned. But at a closer look, not a role model that can be readily followed in developing countries. Why?

First, the market economy is inherently no less un-equalising in these economies than in other industrialised economies. Norway has the most equal income distribution among the countries in the World Development Indicators of the World Bank. But, take away the social security benefits, and consider the pre-tax income of the rich, and income distribution in Norway, or in the other Nordic countries is no less unequal than, say, the US.

The more important implication, following from this, is that in all the countries of the Nordic or Scandinavian model have a proportion of government revenue to GDP that is near or above 50 percent, the ratio of public spending is even higher. Other major West European countries like France and Germany also have nearly similar ratios. The UK and USA are exceptions in having considerably lower revenue-GDP ratio, but even there the public spending is nearly half of GDP because of high budget deficits.

What this shows is that in a market economy, since the production is mostly in the private sector, the binding constraint to pursue socialist goals, whether in the universal public provision of education and health services or in providing social security for the poor, is the government's capacity to mobilise revenue. That the Scandinavian countries have this capacity is the essence of their economic model.

Let me add that the reason I have used the term Democratic Socialism is not to attach any ideological meaning to it, but merely to distinguish it from the Scandinavian model Social Democracy.

Consider now the government's capacity for social sending in developing countries. There is of course the problem of large-scale tax evasion. But, apart from that, there

are structural problems arising from the fact that a large part of the economy is informal and outside the tax net. The South American countries with socialistic goals, Ecuador or Bolivia or Brazil, with President Lula re-elected have at least a revenue-GDP ratio of nearly 30 percent. But look at South Asia,

India and Nepal have the highest revenue-GDP ratio of about 20 percent. Sri Lanka with a revenue-GDP ratio of only 10 percent is an example that you cannot pursue populist policies of lowering tax rates and still continue to pursue socialist goals including having an elaborate social security network by foreign borrowing; then you risk being bankrupt. Needless to say, for Bangladesh, having a revenue-GDP ratio of even below 10 percent, it will be therefore quite ambitious to earnestly pursue socialist goals.

It is true that some less developed countries like Bangladesh have made rapid initial progress in some social development indicators by using the so-called low-cost solutions, but further progress will require much more public social spending.

There is also a large literature on developing countries pursuing a model of welfare state in terms of ensuring social safety nets for the poor and public provision of basic health and education services. But when it comes to the financing such services, the discourses turn to the need for foreign assistance, which of course is not forthcoming in the required amounts.

Let me know turn to some out-of-box ideas for boosting public resources in these countries.

First, I pick up a little-known idea from Nobel laureate economist James Meade's 1964 book *Efficiency, Equality and the ownership of Property* in which he discussed about "selective nationalisation", by which he meant part public ownership of private companies through acquisition of company shares and he also proposed setting up an independent trust to spend the revenue from the dividend of these companies for social spending. In the 1980s and 1990s, the younger groups in the British Labour Party advocated for the inclusion of this idea in the party agenda, terming it as "property-sharing democracy", but the idea was eventually abandoned.

But there are now some recent practical examples of such public acquisition of shares of private companies, though in a different context. In the recent financial crises in the US, both the Obama and Trump administration salvaged a number of large companies from bankruptcy by infusing liquidity through buying their shares (at the face or par value). But given the ideological abhorrence there against any public ownership of businesses, these companies were given the opportunity of buying back the shares as they recovered from the crisis.

In many developing countries with poor governance of the financial sector, there is a particular scope for such public acquisition of profitable companies to generate government revenue. It's not only about salvaging companies facing temporary liquidity problem due to some crisis. There are large agglomerates of companies, at least some components of which are highly profitable; yet these companies fail to repay bank loans because the profits are legally or illegally transferred abroad. On the plea that the companies must be kept afloat for the sake of the economy, the loans are repeatedly rescheduled with interest waivers.

Instead, the government can lend money in exchange for a part of shares at par/face value of the shares.

The legal details of such public purchase of shares have been discussed by in the Harvard Business School bulletins in the context of the US crises. Incentive-wise, such public ownership of company shares shouldn't raise the spectre of erstwhile failed state-owned companies of the pre-liberalisation era in developing countries. The government can be represented on the company boards by nonvoting directors or those with minimal authority to interfere in the business of the company. So, there is no reason for any adverse effect on the business incentives of company managers and private directors just because a part ownership belongs to the government.

Again, profits from of natural resource extraction, if well managed, can be a substantial source of revenue for the government in the resource-rich developing countries: The now giant multi-national oil and gas company, Petronas in Malaysia, was established in 1974 under 100 percent government ownership; in 2022, the government will get an annual 11 billion US dollar worth of profit from that company. The South Korean, the iron and steel company POSCO set up by the government in 1973 played a key role behind the country's industrialisation; the government still owns 70 percent of the company and earns huge annual revenue. In the US state of Alaska, the entire profit of the state-owned gas and oil company is distributed among the state residents.

There is also the opposite side of the picture, mainly in Africa, where natural resources proved to be a curse – the so-called “resource curse” - with foreign

companies ruthlessly destroying the local habitats and plundering the resources in collusion with the local elites. The film Blood Diamond captures it all.

Then in the industrialised countries, there high rates of inheritance tax, capital gains tax and wealth tax: in the less developed countries, these taxes either are not there or tax rates are too low or are poorly implemented, which is a source of intergenerational continued wealth concentration. A large part of the ill-gotten wealth is not also used in any productive business, rather used to purchase land and real estate representing a waste of potential savings; and these taxes at higher rates are unlikely to affect business incentives.

Let me say something about the nature of democracy and market driven growth

No matter how much effort is given to mobilising public resources, that won't be enough. Much will also depend on the nature of democratic governance and the way the market economy behaves.

I shall not go into the well-known literature on why market interventions are needed to ensure fair competition, to protect environment or overexploitation of natural resources, and so on. But some interventions are of particular interest for achieving socialist goals of fairness and equality.

Economic theory tells us that in an economic deal or exchange, both parties gain if it is willingly done. This is often misinterpreted as a ground for not intervening in the market by overlooking the fact that the gains may not be fairly distributed between parties of unequal strength. So, there is a perfectly legitimate ground for organising the weaker parties like factory workers, tenant farmers, fisherman, home workers, etc to demand their fair profit shares or remunerations.

How to prevent these organisations to be themselves captured by vested interests is a challenge. The Indian globally famous milk-product company Amul was created to organise poor milk producers into co-operatives to save them from the exploitation of marketing intermediaries.

Support for small entrepreneurship is an important ingredient of any employment-oriented broad-based growth strategy. There is much talk on investment climate with many global indices. What is not emphasised is that the adverse investment climate is more of a hindrance for small entrepreneurs who face hurdles in graduating out of the informal sector of the formal economy.

Similarly, in many societies, social divisions of caste, religion or ethnicity are a barrier to economic upward mobility of the marginalised groups. The state of Kerala is an example of how these barriers can be removed or minimised; the historical factors there along with a truly representative local governance system played a key role in Kerala.

Then there is a good deal of literature on what is called “the tragedy of the commons”. This is about how common community resources like forests, wetlands for fishing – the char areas in Bangladesh belong to this category - these common property resources are captured by powerful intermediaries or overexploited in an uncoordinated way. These are often an important source of livelihoods of the poor, and there are examples across the developing world of innovative ways of preserving and using these resources to serve best the community interest. One has to adopt the model that is suitable to the ecological conditions and behavioural norms of the communities concerned. The NGOs, and a truly representative local

governance system that can withstand pressure from vested interests and are sympathetic to the causes of the deprived people, can play a key role here.

In agriculture, short of joint or collectivist farming, there are alternative forms of cooperation in production, irrigation and sale of produce. The suitability of these cooperative arrangements depend on the nature of production technology and the prevailing social norms, which are different across developing countries.

A country's education system has important implications in terms of equality in excess to educational opportunities. Educational system may be broadly of two kinds: first, ensuring universal access to quality basic education while giving less attention to higher education; and second, an elitist system of quality higher education while neglecting universal basic education. South Korea is the example of the first approach, while India of the second approach. This is reflected in the pattern of economic growth and income distribution. South Korea was far more successful than India in having a broad-based rapid economic growth without deterioration in income distribution. India was lucky to be able to take advantage of the IT revolution, but the result was a much more unequal growth, with so-called two Indias, one poor and backward, the other modern and high-tech. Extensive early reforms in South Korea, and also in Taiwan, had also a role behind why rapid economic growth could be achieved without deterioration in income distribution. So, a country need not necessarily declare socialism as a state policy to have some socialist achievements.

We need to remember that market is an un-equalising force because, unlike in democracy where one person has one vote, entire production and distribution system in the market system is determined by the distribution of purchasing power

in society. Had there been a different distribution of income, the demand and production pattern, the market prices and the estimation of GDP and its growth would be different. That is a ground for caution for measuring economic progress by GDP growth alone. And this is apart from the fact that GDP, far from being an indicator of human well-being, cannot even properly measure the material aspect of living standards.

I shall not go into those issues here, except to point out that there should be caution about the extent of the reach of the market. For example, the reason why there are objections on moral grounds against privatisation of, say, water supply, is that it may limit the poor's access to safe water. As water has increasingly become a scarce resource in many countries of the world, there are strong business lobbies for making water a marketable product; even many economists have also argued in favour of privatising the water market. Against this, there has been civic activism worldwide in support of access to potable water as a fundamental human right, a view that has been endorsed by the UN General Assembly in 2010 by an overwhelming majority votes, albeit with less enthusiasm from most of the industrialised countries, 41 of them abstaining from voting.

Given the supremacy of the market paradigm, we tend to forget that there can be business models other than the typical capitalist ones. For example, during Marshal Tito's regime, there was the Yugoslavian model of factories operated independently by democratically elected worker bodies the worker bodies not only made all business decisions including distribution of profits but also looked after workers' welfare. From the 1950s to the middle of the 1960s, Yugoslavia was one of the fastest growing economies in the world, even surpassing Japan, but the system eventually couldn't sustain because of the absence of concomitant

development of a market system as well as many political adversities. There was once much discussion about the Japanese model, based on the so-called “Japanese ethos” of loyalty of workers to their companies and the guarantee of lifelong employment; but that model has now nearly disappeared as many Japanese companies lost global competitiveness during the 1990s.

Businesses, even though profit oriented have a responsibility too. There is now much talk about socially-oriented businesses and the CSR of companies. Even purely profit-motivated companies may take a more socially-sensitive stance for their enlightened longer run self-interest, provided there is enough public awareness about these issues. Jean-Jacques Rousseau invoked the idea of a social contract to maintain social harmony, namely it is the political and social responsibility of every citizen to respect mutual responsibility for the welfare of everyone. One could now think including businesses as separate entities in a new kind of such “social contract”.

Lastly, I have not outlined any ideologically driven agenda

Various features can be implemented in various degrees, and already some features exist across the developing world. But a change in mindset of the governing regime is needed, and no way to predict when the opportune moment will come for a country.

Two risks. In confronting with the opposing vested interests, an elected regime may tend to become autocratic thinking that there is no alternative to its continuation to continuing the agenda, as happened in the case of Evo Morales in Bolivia.

Second, with the change in the regime, the socialist agenda may in fact be in danger of being derailed. If some measures have already yielded results that benefitted the masses, may not easy to reverse such popular measures by an elected government.