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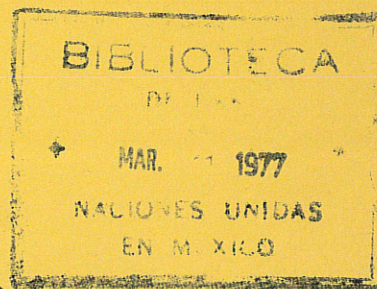
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67 Patterns of public sector in
underdeveloped countries

(Chapter 4 - State capitalism in developed and underdeveloped
countries - Chapter 5 - Public sector patterns)

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STATE CAPITALISM IN DEVELOPED AND UNDERDEVELOPED COUNTRIES

Chapter Four

While discussing the mechanism of capital accumulation in an underdeveloped economy, we arrived at the conclusion that State intervention on a large scale was very necessary there. The propriety of such intervention arises from the compulsions of the objective situation, from the specific social and economic structure of the countries considered, and from the level of development (or rather of underdevelopment) of their forces of production.

A similar objective tendency ^{1/} made its appearance at an earlier stage in the developed capitalist countries, although in different circumstances, as will be shown. That is why it seems useful to analyze the role played by State capitalism in the historical process of capitalist development in the industrialized countries. At the same time it is necessary to point to the differences between State monopoly capitalism in its present shape in the developed countries and State capitalism in underdeveloped countries.

^{1/} J. Zawadzki emphasizes the objective factors present in the development of State capitalism: "The growth of the economic impact of bourgeois states occurs to some extent quite independently of the ideology, philosophy or school of economic thinking of the politicians responsible for the destinies of their countries. Even the parties and statesmen who for different reasons advocate traditional 'neo-liberal' and 'neo-classical' economic doctrines, indeed do not put less enthusiasm and skill into promoting State capitalism than do the open supporters of rigidity. The clearest example in support of this assessment is provided by the economic policies of the German Federal Republic. The need for expanding State capitalism is therefore stronger than ideological and other reservations in the realm of the superstructure", J. Zawadzki, in Zagadnienia Wsoczesnego Kapitalizmu (Problems of Contemporary Capitalism), Warsaw, 1960, p. 117.

In a certain sense, the State as such was born out of economic compulsion. Even such seemingly "non-economic" functions, as the maintenance of law and order, arise from the necessity of imposing on the other classes of society an order which serves the interests of the ruling class, i.e. the owners of the basic means of production. The State machinery is bound to perform these tasks until it is relegated to the museum of antiquities, side by side with the bronze axe and the charka, when a classless society comes into being. ^{2/} State intervention in economic affairs, and even instances of direct performance by the State of what we would call today "entrepreneurial" functions, can be traced to times immemorial. Taking a more restricted historical perspective, it is almost possible to reverse the usual approach and consider laissez-faire capitalism as an exception to, and a temporary departure from a succession of interventionist policies, pursued by mercantilists, Colbertists, and thereafter by contemporary capitalist governments. Such a historical view exposes the weaknesses of the liberal school pretensions to the eternal character of the free enterprise system.

Emphasis on the active role of the State in the economic process throughout the centuries should not be understood as a denial of the profound differences in the scope and methods of intervention under different social systems. We shall not explore this subject further, limiting ourselves to a few remarks on the role of the State in the development of the capitalist relations of production.

Though the influence of the State in shaping economic activity was less marked in the period of laissez-faire capitalism than under feudalism, its impact in creating the new production relations should not be minimized. Without significant State assistance the process of primitive accumulation could not have taken place. Even Adam Smith recognized the necessity of entrusting to the State strictly economic functions, namely, those of providing the infrastructural requirements. He thus speaks of: "the duty of erecting and maintaining certain public works and certain public institutions,

^{2/} F. Engels, On the Origin of Family, Private Property and the State, Chapter IX.

/which it

which it can never be for the interest of any individual, or a small number of individuals though it may frequently do much more than repay it to a great society." ^{3/}

In general, the classical economists were far less laissez-faire minded than the mercantilists in relation to such questions as the abolition of private armies, private police, and private highways. ^{4/} They understood that such institutions were an obstacle to development. That is why in interpreting the classical economists, Lionel Robbins, himself a leading supporter of neo-liberal doctrines, had to admit that the system of 'economic freedom' required as a precondition, the creation of a "highly artificial environment, which is necessary, if it is to function properly" ^{5/} Marx had shown, how the process of capital accumulation was hastened, and the transition between feudalism and capitalism was shortened artificially by means of utilizing the State power through the development of the colonial system, the creation of the national debt, the evolution of modern fiscal policies and protectionism. ^{6/} In particular, a salient feature of this process has been the persistent utilization of militarism both as a means and as a "province of accumulation" in itself, according to the apt expression of Rosa Luxemburg.

The assistance given by the State to the development of new production relations and the expansion of the forces of production, did not limit itself to the indirect devices mentioned above, but went deeply into the sphere of material production. Examples can be freely drawn from the economic history of all West European countries and also of the United States, the "classical" land of free enterprise. The latter are particularly interesting due to the persistence with which America advocates free enterprise as a model for all.

^{3/} A. Smith, The Wealth of Nations, Cannan's edition, Vol. II, p. 185.

^{4/} L. Robbins, The Theory of Economic Policy in English Classical Political Economy, London, 1953, p. 189.

^{5/} Ibid., pp. 56-7.

^{6/} K. Marx, Capital, Vol. I, Chapter 24, para. 6.

The need for bold State aid for the development of the transportation system - first canals and then railways - was recognized in America since the Albert Gallatin Report of 1808. Thus, in the twenties of the last century "most of the canals had been built by the several States. Constitutional objections had tied the hands of the Federal government, although considerable assistance was rendered through donations of public land and the purchase of stock, as in the case of Chesapeake and Ohio. Private capital was inadequate, but the credit of the States in the prosperous days of the late twenties and the early thirties of the last century seemed inexhaustible. Land speculators and bona fide settlers encouraged expenditure out of all proportion to the existing wealth and populations of the States, and wrote in the State constitutions of the period directions "to encourage internal improvements within the State". Rivalries between States and cities contributed to the mania..."^{7/}

A few decades later, when the railroad boom started, and private capital was again insufficient, "city, State, county and Federal government aid was freely given" ^{8/}. Federal aid was rendered in the form of tariff remission on rail transport, land grants and direct financial aid. State aid consisted chiefly on subscriptions to the capital stock, loans through direct purchase or underwriting of railroad bonds, land grants and covering the expenses of surveying. In general, "before private capital went into railroads, the government was expected to do much to make the way easy. Railroads were built under charters voted by the State legislatures; all of them contained valuable rights and concessions and many were obtained by corrupt means".^{9/}

As for the industries exploiting mineral resources and timber, they owed their prosperity "to the benevolent paternalism of a government that sold its natural resources for a song, gave them away, or permitted them to be stolen without a wink or a nod. Indeed, until Cleveland's second administration the public land office of the United States was little more than a centre for the distribution of plunder; according to President Roosevelt's land commission, hardly a single great Western State had its title untainted by fraud."^{10/}

^{7/} H.U. Faulkner, American Economic History, New York, 1943, p.282.

^{8/} Ibid., p. 290

^{9/} Ibid, p. 490

^{10/} Charles A. and Mary R. Beard, The Rise of American Civilization, New York, 1954, Vol II., p. 199.

The real attitude of the American capitalists to State intervention in economic affairs has been characterized in the following words by President F.D. Roosevelt: "For a while it has been American doctrine that the Government must not go into business in competition with private enterprises, still it has been traditional, particularly in Republican administrations, for business to ask the Government to put at private disposal all kinds of Government assistance. The same man who tells you that he does not want to see the Government interfere in business - and he means it, and has plenty of reasons for saying so - is the first to go to Washington and ask the Government for a prohibitory tariff on his product".^{11/}

Similar examples can be easily drawn from the economic history of other countries. Already at an early stage of capitalist development certain branches of production, such as railways, require a huge concentration of capital, in many cases greater than available on the finance and loan capital markets. This is all the more true if there exist more profitable alternative investment possibilities. In such a situation, the ideal collective capitalist, in Engels' words - the State - enters the stage and takes over the task. The bigger the responsibilities it undertakes in the productive field the more the State becomes "a real collective capitalist".^{12/}

This process gained in strength with the further development of monopoly capitalism during the First World War. In Lenin's words, "world capitalism, which in the seventies and eighties of the last century was the leading and the progressive force of free competition and which in the beginning of the twentieth century grew into monopoly capitalism, i.e., imperialism, made during the war a considerable step forward, not only towards still greater concentration of finance capital, but also towards its transformation into State capitalism".^{13/} At the same time some elements of planning within the framework of capitalism made their appearance as the result of development of big trusts and of State enterprises.

^{11/} F.D. Roosevelt, Commonwealth Club Address, delivered on September 23, 1932, Living Ideas in America, ed. by H.S. Commager, New York, 1951, p. 353.

^{12/} F. Engels, Anti-Duhring (Polish Edition), Warsaw, 1949, p. 274

^{13/} V.I. Lenin, Works, Vol. 23 (Polish Edition), Warsaw, 1951, pp. 294-5

Engels drew attention to this fact in his "Critical Remarks on the Draft Programme of the Social Democracy, 1891".^{14/}

Under the impact of the catastrophic consequences of the Great Crisis of 1929-33 and the long depression which caused, the effort aimed at saving the endangered capitalist system by means of massive State intervention gained such a momentum, that it is possible to speak of a new phase in the history of capitalism. And this is all the more so since the opus magnum of John Maynard Keynes, The General Theory of Employment, Interest and Money, and the voluminous body of Keynesian and post-Keynesian literature provided it with a new theoretical foundation. There exists undoubtedly a causal relationship between the crisis of 1929-33 and the appearance of new trends in academic economic literature, sometimes exaggeratingly termed the "Keynesian Revolution". The great crisis closed so to say the phase of "classical capitalism" and opened a new stage of increased State intervention, marked by conscious and systematic elaboration of means of control and of methods of partial planning as well as by the quest for a theoretical justification for such steps. The decisive influence of the State on the economies of developed capitalist countries became patent during the Second World War.^{15/}

Does that mean that capitalism ceased to be capitalism? We cannot go here into a general discussion of the theories which claim that after 1929, capitalism to save its skin basically changed its essence, and that the capitalist state transformed itself into a classless entity,^{16/} or that it went through a "revolution"^{17/} and transformed itself into "people's capitalism". Such theories overlook in silence some basic features of contemporary capitalism such as the internal contradictions immanent to the capitalist mode of production. Quite often they draw inspiration from biased analysis of statistical data - this is the case of the so-called "income

^{14/} The Polish translation of Critical Remarks on the 1891 Draft Programme of Social Democracy was published in Dec. 1956 in "Zeszyty Teoretyczno-Polityczne".

^{15/} The first exhaustive analysis of the problem from a Marxist standpoint was made right after the end of the Second World War by E. Varga. J. Zawadzki in his study of the role of the State in contemporary capitalism, op.cit. goes back to Varga's book, which previously met the severe criticisms on the part of several other Marxist economists.

^{16/} J. Strachey, Contemporary Capitalism, London, 1956.

^{17/} A well-known book by Adolf Berle, Junior, bears the title: The Twentieth Century Capitalist Revolution. /revolution", which

revolution", which is contradicted by facts^{18/}. Rejection of these theories should not make us underestimate, however, the extent of changes in contemporary capitalism; the notable expansion of the forms of state capitalism and of partial planning belongs to the realm of such changes.

How should we evaluate the growing intervention of the capitalist State in economic life? The very term "State capitalism" suggests that the impact of each State capitalistic venture depends on the nature of the State and on the concrete policy pursued by it. The pre-eminence of this political factor has been acknowledged by many authors. We shall quote here the former President of Argentina, Arturo Frondizi: "The problem of State intervention is linked to the problem of the exercise of political power and one should know which socio-economic sector exerts it and in whose favour"^{19/} Lenin said long ago that the whole problem amounts to the question who is controlled by whom, i.e. which class is controlling and which is controlled^{20/}. Thus it is not possible to accept prima facie as progressive every instance of the State undertaking economic activity. If the tobacco monopoly meant socialism, observed Engels once, then Napoleon and Metternich should be considered as the founders of socialism.^{21/} This witty remark has not lost its freshness. In Austria, Italy or Israel the public sector is quite extensive, but none of these countries is socialistic.

Every theory of a classless, neutral State, advanced by many Social-Democrats must be regarded as contrary to Marxism. At the most, one may recognize the possibility of the emergence of exceptional and transitory situations when some kind of equilibrium occurs between different social classes. Engels described such a development on his Origin of the Family, Private Property and State. But he had in mind the equilibrium between homogeneous social classes, all living from exploitation, while the interclass alliances, shaped in former colonies and dependent countries in the midst of anti-imperialist struggle, unite in certain circumstances heterogeneous classes interested in certain common goals, such as strengthening of economic independence.

^{18/} On this question see P. Sweezy's Contribution to American Labor in Midpassage, ed. by B. Cochrane, New York, 1958, and the important article of Mrs. S.F. Goldsmith. American Economic Review, May 1957, showing that in reality since 1944 no significant change occurred in America in the distribution of family incomes.

^{19/} A. Frondizi, Petroleo y Politica, Buenos Aires, 1955, p. LXI.

^{20/} V.I. Lenin, Works (Polish Edition), Vol. 5, p. 368

^{21/} F. Engels, Anti-Duhring (Polish Edition), p. 247, fn.

/While discussing

While discussing State capitalism, and more particularly State monopoly capitalism in advanced countries, it is necessary to take into account its specific features which consist in the fact that it represents the highest degree of socialization of capitalist production which still rests, however, upon the private ownership of the means of production. It is dangerous to overemphasize either side of this contradictory feature. "State monopoly capitalism must be considered from the viewpoint of the unity of its material and class relations," writes the Soviet economist S. Dalin, "Contemporary dogmatists disrupt this unity and analyze State monopoly capitalism merely from the angle of class relations. They reduce the whole problem of State monopoly capitalism to the 'subordination' of the State to the monopolies. That is why they ignore the circumstances that State monopoly capitalism creates some material premises for socialism; they take a sceptical view of the struggle of the working people for a more democratic system of State regulation of production and distribution, and assume an utterly negative attitude towards the nationalization of the most vital sectors of the economy within the capitalist system etc. On the contrary, many bourgeois economists and politicians reformists and contemporary revisionists look at State monopoly capitalism only from the angle of the socialization of the process of production and of the appearance of the material premises of socialism within contemporary capitalism; they pass over in silence the essence of State monopoly capitalism and the pressures of the monopolies, presenting State monopoly capitalism as a 'mixed economy' system where capitalism and socialism coexist peacefully"^{22/}

The dual character of State capitalism, mentioned above, gives rise to many internal contradictions. In particular, while implementing its basic task of providing the general framework necessary for the functioning of the capitalist system, the "collective capitalist" or the State may find itself in contradiction with particular capitalists. Let us imagine for the sake of argument the following situation: in country A, public utilities, e.g., production of electric power, are owned by private monopolists. On this ground sharp contradictions arise between those monopolies and the remaining capitalists. The State intervenes, taking over all the public utilities. This

^{22/} S. Dalin, Zagadnienia kapitalizmu państwowo-monopolistycznego (Problems of State Monopoly Capitalism) Sprawy Międzynarodowe, Warsaw. April 1961, p.61

may be prejudicial results for some capitalists, those who are expropriated, but brings advantages to the rest of them.

From the same example it is possible to show that State intervention, undertaken in the interest of the capitalist class may bring positive effects for the whole national economy. What in our example will be the price policy of the nationalized power stations? Obviously they will not be in a position to guide themselves only by micro-economic criteria of the highest profitability of the enterprises; under the double pressure of broad strata of individual consumers, who buy power for home use and of industrialists, interested in getting the cheapest power for their plants, the power stations will have to consider some social criteria.

Political and social struggle and the pressure of the organized trade union movement and of mass political organizations may force the "collective capitalist" to promote reforms, which are resisted by less far-sighted individual capitalists, who do not understand that such reforms extend the life duration of the capitalist system.

The mutual interaction of all these motives and attitudes, often contradictory, as well as the changing political conditions explain the variability, the heterogeneity and the diversity of forms of State capitalism. Each nationalization and the particular role of each state capitalist enterprise should be viewed in its concrete historical context.^{23/}

The general and somewhat abstract considerations above may be easily exemplified.

The railways provide a classical instance of an economic activity that could not have developed without its being fostered by the State. As a rule, the State used to take them over at a particular stage for direct operation. It is true of both highly developed and underdeveloped or even colonial countries. In France, the Bill of 1841 provided for a system of concession for the railroads. The conventions of 1859 and 1883 involved the State in the financing of less profitable railroads, as well as in underwriting enterprise risks through the so-called guarantee of dividends to the invested private capital. The responsibility of the State grew progressively up to

^{23/} P. Togliatti's report delivered to the Eighth Congress of the Communist Party of Italy.

the nationalization of the railways in 1937, when the State took 51 per cent of capital in the new mixed enterprise, assuring to private companies a fair compensation.^{24/} In India, the railways were started by private companies, but an agreement between the British Government and the promoters gave the latter the unconditional right to hand over the enterprises to the Government of India against full compensation for the capital invested, as well as a number of additional guarantees. The guarantee system did not work well, however, and as early as 1869 Lord Mayo raised the question of State ownership, which materialized after a long period of half measures in 1923, to be completed only by 1944.^{25/}

A clear-cut instance of the State taking over a private enterprise to save it from bankruptcy is provided in France by the case of Compagnie Générale Transatlantique in 1933. More generally, the same idea was at the basis of the economic policies of the Italian corporativism, where in the course of the great crisis such "negative" nationalization affected about 25 per cent of the industrial and financial assets of the country.^{26/} It is worthwhile to recall that the fascists Charter of Work, promulgated in 1927, stated clearly that "the intervention of the State in production takes place only whenever private initiative is absent".^{27/}

The interventionist policies of F.D. Roosevelt, known in America as the New Deal, were much more complex in their nature. Some progressive social measures and forms of State capitalism, like the much advertised TVA scheme, were undertaken by the Roosevelt administration under the impact of severe social and political struggles, which developed during 1929 economic crisis. That is why the New Deal had behind it a loose coalition of workers, farmers, Negroes, youth, professionals, small businessmen and other democratic groups, as well as a section of the capitalists. But several other measures proved beneficial to the interests of monopoly capital. The official aims of the New Deal were proclaimed by President Roosevelt in the following words: "What we seek is balance in our economic system - a balance between agriculture and industry and balance between the wage earner, the employer and the consumer".^{28/}

^{24/} B. Chenot, *Les Nationalisations en France*, Paris, 1956, p. 55 and ff.
^{25/} P. Prasad, *Some Economic Problems of Public Enterprises in India*, London, 1957, pp. 96-101.

^{26/} Einaudi, Bysé, Rossi, *Nationalisation in France and Italy*, Ithaca, 1955.

^{27/} J. Billy, *La Politique Economique*, Paris, 1958, p. 33

^{28/} Quoted from L.M. Hacker, *American Problems of Today*, N.York, 1939, p.200

In practice the New Deal amounted, however, to "a political programme on behalf of agricultural landlords and big commercial farmers, organized trade unionists and overseas investors and imperialist promoters".^{29/} It was not an anti-capitalist programme. On the contrary, according to H.V. Faulkner "the proponents of the New Deal insisted that they were trying to save rather than destroy the existing economic system by eliminating some of its worst abuses. Whatever may have been the hope, one crying evil of the present system - the maldistribution of wealth - seemed hardly affected by the programme".^{30/}

Louis M. Hacker has put it in a still clearer way: "the State no longer pretended to be laissez-faire, or a passive State: it was now the capitalist State. We are beginning to live under the authority of State capitalism. In short, the general theory and functions of capitalism remained: private ownership of the means of production, unhampered individual accumulation, the wage system, inequality of income based upon property possession and not social need, a class society. In some areas, however, the State was beginning to act as enterpriser; and in a few, indeed as a monopolist enterpriser as in the case of the TVA." ^{31/}

On the whole, the New Deal was a policy dictated by the desire of preserving capitalism, menaced by the mounting class struggle: "State intervention was necessary from the viewpoint of capitalism itself to prevent social unrest if not profound dislocations".^{32/}

As for the extent of State intervention, it was kept within the limits of the Keynesian formula, elucidated in the following terms by J.K. Galbraith: "The essence of the Keynesian formula consists in leaving private decisions over production including those involving prices and wages, to the men who make them. The businessman's apparent area of discretion is in no way narrowed. Centralized decision is brought to bear only on the climate in which those decisions are made; it insures only that the factors influencing free and intelligent decision will lead to action that contributes to economic stability".^{33/}

^{29/} L.M. Hacker, op. cit, p. 205

^{30/} H.V. Faulkner, op. cit, pp. 676-7

^{31/} L.M. Hacker, op. cit., p. 277

^{32/} Ibid, p. 278

^{33/} J.K. Galbraith, American Capitalism, the Concept of Countervailing Powers, 1952, p. 131.

If we turn now to the post-war nationalizations in Western Europe, first of all in France, we find that they proceed under the impact of a powerful social movement and they had a distinctly progressive character, which was lost subsequently in consequence of a change in the balance of political forces in that country. Commenting on these nationalizations, Henri Claud reached certain general conclusions, which bear some methodological value for the present study: "... nationalizations do not have by themselves an anti-capitalist character. They are an envelope, which can hold different contents, an instrument, whose value depends on the way in which it is used and on the goals proposed ... Therefore, it is not enough to say that nationalizations do not have a socialistic character - this is admitted by J. Moch - and that they constitute merely a democratic measure; it is still necessary to point to the fact that the affirmation of this democratic character is made dependent on the condition that the Government in power should be a democratic one; and that a change of Government and a new political orientation are enough to make the nationalization lose this democratic character. And reciprocally, if the nationalizations may lose the democratic character they had at their birth, they can equally regain it ... in the hands of a democratic Government."^{34/}

A still different view should be taken of post-war nationalization in Britain. The Labour Party tried to make some ideological profit from it, but it would seem that they were primarily motivated by pragmatic reasons and the need of taking over by the State of the unprofitable branches of production.^{35/}

Besides showing the varying and heterogeneous role of State capitalism, the historical instances referred to above indicate that nationalization is a normal method of creating the public sector or of widening its area of operation. Nationalization as such is not anti-capitalistic. F. Machlup remarked that nationalization of some monopolistic industries is sometimes even proposed by anti-socialist advocates of a free enterprise economy.^{36/}

^{34/} H. Claude, Les Monopoles contre la nation, Paris, 1956, pp. 178-79, In Polish literature, problems of State capitalism in France were studied by Joanna Grywicka.

^{35/} On this question see, among others, A.A. Rogow, The Labour Government and British Industry, 1945-51, Oxford, 1955.

^{36/} F. Machlup, The Political Economy of Monopoly - Business, Labour and Government Policies, Baltimore, 1952, p. 50

From the point of view of international law, the nationalization of foreign property lies within the jurisdiction of the sovereign will of the State, and the right of nationalization has even been recognized by the governments of the United Kingdom and of France in connection with the taking over of the Suez Canal Company property by the Egyptian Government.^{37/} This should apply a fortiori to the property belonging to the citizens of the countries doing the nationalization. The right of nationalization without adequate compensation is being more and more recognized even among non-socialist scholars of law,^{38/} although there are conservative opinions of advocates of neo-colonialism opposing any nationalization.^{39/}

A distinction should be made between several types of nationalization, according to the specific aim underlying it and the political climate in which it occurs. We have mentioned instances of negative nationalization, aimed at saving from bankruptcy private capitalist firms, as well as functional nationalization of public services, and progressive nationalization, undertaken under the pressure of powerful left wing movements. For the present study, it is particularly important to focus attention on nationalization as an instrument of anti-imperialist struggle. According to former Argentine President, Arturo Frondizi, who before taking power represented a moderate anti-imperialist position, "the nationalization of great foreign enterprises is a method of anti-imperialist struggle the same as the nationalization of different types of monopolies is a method for democratising the economy."^{40/}

^{37/} M. Lachs, *Nacjonalizacje a rozwój miedzynarodowych stosunkow gospodarczych* (Nationalization and the Development of International Economic Relations), *Panstwo i Prawo*, Warsaw, October, 1958.

^{38/} See, for instance, I. Foighel, *Nationalization, a Study in the Protection of Alien Property in International Law*, London, 1957.

^{39/} A good illustration of such views is provided by the opinions expressed on the seizure of foreign property and enterprises in Indonesia by Lord McNair, Henri Rolin and A. Verdross in a special number of *Het Nederlands Tijdschrift voor Internationaal Recht*, July, 1959.

^{40/} Frondizi qualifies his statement however by the following remark: "... although the policy of nationalization is so fundamental, it does not by itself define anti-imperialism. It is not a panacea, nor is wealth created just by it ... By itself, nationalization cannot either define the basic economic orientation followed by a country..." (op.cit., p. LX).

Apart from the recent cases of nationalization, such as the Suez Canal in the United Arab Republic and the American enterprises in Cuba, one could recall as an example of anti-imperialist nationalization the case of the oil companies in Mexico, which can be evaluated more effectively for more than 20 years have elapsed since then.^{41/} The positive effects of this nationalization are not questioned in general, even by scholars who do not approve nationalization as a matter of principle. The results of the creation of the State owned "Pemex" may be evaluated from the fact that Mexico is getting from her nationalized oil industry approximately as much revenue as Venezuela is paid by foreign oil monopolies, although oil production in the latter is many times greater than that of Mexico.^{42/} Many governments in underdeveloped countries assume, however, a very shy attitude towards the problem of nationalization of the existing enterprises. In refraining from such a step, politicians and economists from those countries invoke frequently reasons of a financial nature. They claim that the necessity of paying proper compensation to the expropriated foreign owners would reduce still more the scarce government resources available for investment. For instance, V.R. Cirvante writes in this respect: "if the State attempts to take over enterprises which have already been started by private enterprise, it will be failing in its task of utilising its limited financial resources for investment in the more urgently required developmental projects which are remunerative only in the long run."^{43/} In their opinion, the State should rather reserve for itself certain open new branches of economic activity. The public sector should develop in these circumstances ab ovo on the basis of public investment,

^{41/} J.R. Powell in his The Mexican Petroleum Industry 1938-50 (University of California, 1956, p. 195), came to the conclusion that "Pemex, the government oil company, has survived the traumatic shock of birth, and after twelve years was giving some assurance that it could grow". From a study on the spot he has found that "at the end of twelve years of experience, extremely few voices expressed regret for the act of expropriation and the fundamental will to consummate the objectives of expropriation seemed as strong as in 1938".

^{42/} V. Spirin, Lessons of Oil Industry Nationalization in Mexico, "International Affairs", Moscow, October 1958, p. 83.

^{43/} V.R. Cirvante, The Indian Capital Market, Bombay, 1956, p. 12

without the initial advantages of a "big push" represented by nationalization.

M. Brecher termed this type of policy as "socialization of a vacuum, that is to say, the concentration of public investment in those areas of the economy which are totally free from private interest".^{44/}

Speaking of nationalization, mention should be also made of so-called "de-nationalization". Such a policy constitutes an attempt to set the clock back in respect of "progressive nationalization", or to withdraw in periods of prosperity from "negative nationalization", implemented in the course of crises.^{45/} Such operations generally proved very profitable to private capitalists and this underlines the fact that the economic policies of some governments are subordinated to the interests of monopoly capital.^{46/} One of the aims of nationalization may be the desire to place on the stock market the so-called "people's shares" and to thus create the illusion of "people's capitalism". As an example of such an operation we can mention the sale of one third of all the shares of State owned banks in Austria, and the re-privatization of the Volkswagen Automobile Works in the German Federal Republic, meant to serve as a show piece of its so-called people's capitalism.^{47/}

In underdeveloped countries the counterpart of these policies of "de-nationalization" is the tendency towards the "privatization" of industries pioneered by the State, as soon as they become profitable from the point of view of private enterprise economy. This point will be dealt with more extensively below.

An important feature of contemporary State capitalism is the growth of institutions specialized in planning or programming. Planning in a capitalist economy is much less comprehensive than in socialist one. It usually consists in budgeting public investments over a period of several fiscal years, as well as in projecting of macro-economic indices relative to the private sector, and drafting on this basis recommendations regarding economic policy. In such a set-up, the significance of the plan is proportional to the role of public investment in the economy as a whole.

^{44/} M. Brecher, Nehru, a Political Biography, London, 1959, p. 512

^{45/} A special kind of "de-nationalization" in America after the end of the War, was the sale to private capitalists of government owned armament factories susceptible of conversion into other uses.

^{46/} This subject is well studied by Marxist economists. See for instance, A.I. Sneerson, Podezinienie burjuaznovo gosudarstva monopoliam, Moscow, 1956.

^{47/} Even The Economist, London, January 14, 1961, hinted at the clearly political objectives of the "de-nationalization" of the Volkswagen Works.

In a developed capitalist economy restricted planning aims at co-ordinating economic activities in a more efficient way than does the free interplay of market forces, and at cushioning the shocks of business cycle fluctuations. Moreover, some amount of planning, coordination, resources allocation and even rationing has to be established in war economies and in post-war situations of acute shortages. Britain can be invoked once more as an instance. In a well known book on planning and nationalization in that country, B.W. Lewis clearly states: "although planning by the Labour Government has an ideological basis, it is important to keep in mind that British planning in 1945-51, with its accompanying controls, is eminently pragmatic, born of hard, immediate necessity. It springs from shortage of resources in the face of insistent demands and pressures that no Government conscious of its responsibilities could safely ignore".^{48/}

In underdeveloped countries the major considerations behind planning are the stepping up of the rate of growth and the most rational utilization in investment programmes of scarce financial and physical resources. Above all it is necessary to direct those resources to socially useful goals and to promote investment with a view to the future dimensions of the growing economy. It is no longer possible to implement such tasks by basing the choice on criteria applying to individual enterprises, or by short-run prognoses of market conditions: long-range programming is indispensable.

The planning range varies between individual underdeveloped countries. It extends from the fairly comprehensive planning apparatus in India to the conception of limiting central decisions to a minimum and subordinating the role of planning to the construction of simplified growth models, meant to illustrate the results of different economic decisions.^{49/} In between is the programming practised in Brazil, which consists of laying down selected production targets and allotting public financial support for their implementation. "Planning" reduced to a more or less academic forecasting of alternative developmental schemes does not involve, of course, any direct entrepreneurial

^{48/} B.W. Lewis, British Planning and Nationalization, New York, 1952, p. 4

^{49/} Such an approach was suggested by M. F. Millikan in his lectures on welfare economics and development, delivered in Rio de Janeiro, Revista Brasileira de Economia, December 1958, p.75.

function for the State. Quite significantly, Buchanan and Ellis mention as the minimum conditions for "planned" industrialization only the need of surveying the resources, establishing a schedule of priorities and taking measures to promote capital accumulation.^{50/} Obviously such plans do not offer sufficient guarantees of being implemented. The disparity in the aims and scope of planning in the developed and underdeveloped capitalist countries, discussed above, offers an example of the various potentialities and of the different roles played by State capitalism in distinct historical and socio-economic situations.

Historically, the basic difference arises from the fact that in the underdeveloped countries, State capitalism enters the stage when the capitalist structure is still weak and the domestic monopoly pressure groups have not acquired as yet a durable control over the newly born State apparatus; while in developed countries State capitalism emerges as the offspring of monopoly capitalism.

This doesn't deny the existence of influential monopoly groups in underdeveloped countries. Commercial and financial monopolies, both local and foreign, may prosper in, or rather exploit a semi-feudal economy. According to some authors^{51/} the early emergence of monopolies is a specific feature of capitalist development in India. There are several big monopolistic groups also in Brazil, of which the Matarazzo is perhaps the largest. But in the majority of underdeveloped countries the position of these groups cannot be compared of course with the power of the Du Ponts, Rockefellers and Morgans in America, while foreign monopolies frequently come into conflict with the native bourgeoisie and governments.

The functions of State capitalism in underdeveloped countries are also of a special type. In a developed economy, State intervention is directed towards market regulation, i.e. anti-cyclical - as in America - or towards stepping up production - in Western Europe - while in underdeveloped countries intervention is primarily meant to expand capital accumulation.^{52/} In developed

^{50/} Buchanan, Ellis, op. cit, p. 295.

^{51/} See, for instance, A.R. Desai, Social Background of Indian Nationalism, Bombay, 1954, pp. 101-2.

^{52/} These distinctions are made by D. Sokolow in his paper on "Problems of the Business Cycle in Contemporary Capitalism", in Zagadnienia Wspolczesnego Kapitalizmu (Problems of Contemporary Capitalism), ed. by J. Zawadzki, Warsaw, 1960, pp. 33-4.

countries State monopoly capitalism develops in conditions characterized by an excess of private capital, in underdeveloped countries State capitalism substitutes for the non-existing capitalists, performing actually the function of "collective capitalism".

Thus, if proper political conditions exist, in the form of wide support for a development-oriented national policy, State capitalism may in a backward country be an important step towards economic growth. "It may be said", writes O. Lange, "that compared with the inherited stage of backwardness, public investment and the creation of a nationalized sector of a State capitalist nature are a step forward for an underdeveloped country. The creation through public investment of a State capitalist sector means a certain degree of industrialization and general economic development which otherwise would not be forthcoming. It also implies a diminution of the dependence of the native capitalists on foreign monopoly capital and thus a corresponding measures of liberation of the country, to a certain extent, from the domination of imperialism. For this reason the development of State capitalism in an underdeveloped country is on the whole a progressive phenomenon". ^{53/}

In evaluating the impact of State capitalism in underdeveloped countries, one should not consider so much the criteria of a comparison with socialism, but rather other possible ways of transition from feudalism to capitalism^{54/}. In the specific conditions when social stratification did not progress as yet, and the State is not an instrument of domination by the bourgeoisie and feudal lords - since it came into being as an expression of the broad national struggle for independence - State capitalism can accelerate economic growth and at the same time prevent the strengthening of the bourgeoisie and the appearance of new class contradictions. According to Charles Bettelheim, such a situation

^{53/} O. Lange, Essays on Economic Planning, Calcutta, 1959, p. 39.

^{54/} In a different context, writing on the "New Economic Policy in Soviet Russia", in 1921, V.I. Lenin in an article "On the Food Tax" observed: "A lot of mistakes are being made by drawing a parallel or comparing State capitalism only with Socialism, while in given political and economic circumstances State capitalism should certainly be compared also with petty bourgeois production", V.I. Lenin, Selected Works (Polish Edition), Warsaw, 1951, Vol II, p. 766.

arose under the rule of the Democratic Party in Guinea.^{55/} State capitalism also played a very significant role in the first stage of the social and economic reforms implemented in Cuba after the victory of the revolution. To cite Bettelheim again, in examining the prospects of economic planning in Africa: he suggests that the young African countries should establish a State monopoly of foreign trade, internal wholesale trade, and mining. He warns at the same time that the progressive development of State capitalism in Africa is endangered from two directions: that of sliding into private capitalism or of degenerating into bureaucratic capitalism.^{56/}

We can thus say that in some underdeveloped countries new vistas and opportunities for State capitalism are emerging. Their coming into reality would mean that, under proper political conditions, State capitalism in underdeveloped countries could become a transitory form, somewhat similar to what it represented in the initial stages of socialist construction both in the Soviet Union^{57/} and China.^{58/} This historical opportunity should not be understood, however, as meaning that State capitalism is equally and uniformly progressive in all underdeveloped countries. In reality, quite unprogressive, and even reactionary brands of State capitalism are quite common in underdeveloped countries.

^{55/} Ch. Bettelheim's lecture on "Problems of Growth of Underdeveloped Countries", published in Polish *Zeszyty Teoretyczno-Oikultyczne* B° 12, 1960, pp. 78-9.

^{56/} Ch. Bettelheim, "Planification Economique en Afrique Noire", *Cahiers Internationaux*, Paris, January-February, 1961, p. 70.

^{57/} See in particular Lenin's article "On the Food Tax", already quoted.

^{58/} See article 31 of the Common Programme, adopted on September 2, 1949 by the first plenary session of People's China's Consultative Political Conference. See also article 16 in the Constitution of the Vietnamese Democratic Republic, adopted in 1960.

PUBLIC SECTOR PATTERNS

Chapter Five

Is a "typology" possible of different forms of State capitalism encountered in underdeveloped countries?

I would hesitate to answer in the affirmative. But it appears reasonable to single out two extreme models of the public sector in an underdeveloped economy and to utilize them as a frame of reference for analyzing concrete situations, as they arise in various countries.

That means of course, a certain narrowing of the problem, since the public sector concept is not as broad as that of State capitalism; the latter embraces, besides the direct activities of the State in material production, all the forms of intervention and public regulation of the economy, i.e. fiscal, credit and tariff policies pursued by the State, government's purchases, etc. It is often difficult to determine the transition between direct and indirect means of State intervention. On the other hand, within the public sector, properly speaking, we find not only material output units, but a number of economic and financial institutions either specialized in services or performing some administrative and executive functions.

In this analysis we shall consider only those cases, where the State acts as an entrepreneur, in lieu of private interests, taking especially into account the stake of the State in the process of economic growth, its share in material output and in capital accumulation. These are anyhow the most important facets of State capitalism in underdeveloped economies, determining in great measure the extent to which it is progressive. Limiting the discussion to public sector patterns thus seems permissible and even justified.^{1/}

^{1/} In this study we are not concerned with the organizational and juridical aspects of government-ownership of enterprises. There is a voluminous body of literature on the subject, dealing in particular with the growing tendency to endow government-owned enterprises with a constitution which resembles as much as possible those of private-owned joint stock companies, in order to grant them large operational autonomy. Such a trend rests on the assumption that capitalistic competition increases efficiency of management. A wealth of information on this score is contained in The Public Corporation - A Comparative Symposium, edited by W. Friedman, London, 1954.

Generally speaking, hardly anybody questions today the need for expanding the public sector in underdeveloped countries, at least in the realm of social overheads and during the so-called "take-off" period, while the goals pursued and the ideological justifications may differ widely from case to case. This broad uniformity of views arises from political, social and economic compulsions, which have been extensively dealt with in previous chapters, but are summarized here for the convenience of the reader.

1. the urgent need to execute the "big push" in conditions of the severe shortage of social overheads and insufficient private capital accumulation, which from the social point of view is moreover frequently misused^{2/},
2. The general trend of technical and economic progress compelling a higher social concentration of production;
3. the political necessity of achieving economic growth simultaneously with certain social reforms.

2/ V.R. Cirvante while favouring the primacy of the private sector, is compelled to admit that: "if investment in an underdeveloped country were to depend primarily on voluntary savings, it would be necessary to continue to have inequality in incomes in order that the supply of savings made by the richer classes might be large enough. But even this method is not likely to achieve the objective because if the richer classes have a high propensity to consume owing to extravagant habits, or if they have a high liquidity preference, or are not prepared to undertake the risks of long-term investment, an increase in the income of these classes is not likely to result in any net additional investment. In fact a disproportionately large increase in their income would be necessary to bring about a given addition to investment. Nor is the redistribution of income in favour of low income groups likely to increase either voluntary savings or investment under the existing conditions". (The Indian Capital Market, Bombay, 1956, pl2) But such a redistribution would in our opinion by itself achieve at least a very commendable social goal.

/Undoubtedly, the

Undoubtedly, the concrete examples of the methods of socialist industrialization to a great extent influenced the underdeveloped countries in their choice of certain "patterns" of developmental policy. Another factor which impressed them was the expansion of State monopoly capitalism in the advanced industrial countries.

The objective conditions prevailing in underdeveloped countries compel them to organize the process of economic development on the principles of an "emergency economy" or even of a "war economy"^{3/}, in order to avoid the allocation of national income to consumption and investment by means of the market mechanism alone. "It is no longer a question whether the public sector should or should not exist: the question is how far the public sector should expand in the foreseeable future and in what manner it should function",^{4/}

No uniform answer can be given to those questions, since they are determined by the interests of different social classes and strata. The answer thus depends on the relation of class forces in various countries. That is why a whole "gamut" of public sector patterns can exist. But for the sake of simplicity, we shall deal here, as already mentioned, only with two extreme and opposite models.

As the point of departure of the argument which will enable us to define the two models, we shall take the matrix x_{ij} of public enterprises in country A, where i denotes rows and j columns. The enterprises may be classed according to branch of production and degree of profitability. The subdivision of the economy into branches may be adjusted to the concrete needs of the analysis.

3/ This able comparison was used by I.S. Gulati, Capital Taxation in a Developing Economy, Calcutta, 1957, although in that author's opinion the State should operate mainly through an efficient system of direct taxation. O. Lange has made a parallel between "war economy" and the first phase of centralized planning in the European People's Democracies.

4/ N. Das, The Public Sector, New Delhi, 1955, p. 51

Agricultural production is not specified since it belongs both to columns 2 and 4. With few exceptions (e.g. Indonesia, Sudan) State farms do not figure prominently in the economic structure of underdeveloped countries, we may, therefore, ignore them in this analysis.

The analysis by rows suggests the following observations:

With respect to row 1 (see table 2, p. 74) the losses incurred by public enterprises x_{1j} may arise from two causes: (1) lack of rational management, (2) purposive policy of underpricing. The former case should be eliminated from the discussion - not on account of its being unusual, but rather as an unintended result of economic policy. In the latter, we obtain a situation where the State actually subsidized those enterprises and individuals, who by the services and goods turned out by the public enterprises x_{1j} . The State provides external economies and extra-profits to the private sector enterprises which buy the products of x_{11} , x_{12} , x_{13} , while it reduces the costs of production in the public enterprises consuming the same range of products. The gain from the lower prices of x_{14} go directly to the consumers, just as the portion of the services x_{11} consumed by them, and the goods they purchase from State retail shops x_{15} . Finally, the cheap loans offered through State financial institutions x_{16} may benefit either the enterprises or the individuals, e.g. through housing schemes.

With respect to row 2 - the same reasoning may be applied, with the sole difference that the subsidy offered by the State is reduced to the amount of the average normal profit. In that sense, the difference between the first two series is only quantitative.

With respect to row 3 - the picture changes radically, when we pass the borderline between the second and third series. By earning profit, the enterprises x_{3j} render possible capital accumulation within the public sector, which is otherwise entirely dependent on fiscal revenues.

When the profit earned by the public enterprise is lower than the average, accumulation within the public sector takes place simultaneously with the subsidization of the private sector to the amount of the difference between the profit of the public enterprise and average profit. It would seem that in many concrete instances such a compromise is acceptable to both sides. When the profits of the public enterprise however equal, or exceed the

TABLE 2

PUBLIC ENTERPRISES IN COUNTRY A ACCORDING TO ECONOMIC BRANCHES
AND DEGREE OF PROFITABILITY

| | Public utilities, transport, etc. | Raw materials, semi-finished products, inc- luding steel & fertilizers ^{a/} | Producer goods industry | Consumer goods industry | Trade | Banking and Finance ^{b/} |
|-------------------------------|--|--|-------------------------------|-------------------------------|-----------------|---|
| Enterprises run at a loss | X ₁₁ | X ₁₂ | X ₁₃ | X ₁₄ | X ₁₅ | X ₁₆ |
| No-profit no- loss basis | X ₂₁ | X ₂₂ | X ₂₃ | X ₂₄ | X ₂₅ | X ₂₆ |
| Profit earning enterprises | X ₃₁ | X ₃₂ | X ₃₃ | X ₃₄ | X ₃₅ | X ₃₆ |

a/ Steel and fertilizers have been included in column 2 since they are utilized in subsequent stages of production.

b/ Banking is included here only to the extent to which State Banks and financial corporations perform functions proper to industrial and investment banks.

average profit, private capitalists do not perceive any direct gains from the activity of the State on the contrary, they may claim that such profits would to them if the enterprises X_{3j} were privately owned.

It thus clearly follows that the interests of the private sector favour such a price policy in the existing public enterprises as to keep them within the first and second rows or within the "compromise solution" in row three. As far the choice between the first and the second rows again from the point of view of the private sector - it may depend on different considerations, the most important being the choice between a "losing" public sector, whose deficit must be covered by taxes, and a "neutral" public sector, administered on "no-profit, no-loss basis", which means smaller subsidies

/for the

for the private sector but also **smaller taxes**. This choice will depend on the structure of the public sector, the nature of the external economies it provides to the private sector and on the structure of the tax system, the relative importance of direct and indirect taxes and their spread between business and consumers. Of course, concrete pricing raises many other complex issues. For instance, industrial circles in many countries press for an increase of prices for public services, e.g. electric power on household consumers in order to reduce the price of the services to private industries. The contradiction between urban and rural interests may manifest itself through the pressure of industrialists to overprice industrial goods from public enterprises sold to farmers e.g. fertilizers so as through the price policy to raise the investible surplus from the countryside. Of course, an inverse policy, namely, subsidizing agriculture at the expense of industry, may be also conceived. An extreme case is that advocated by Gandhian economists in India of strongly subsidizing the self-employed and cooperative sectors in the countryside, by granting them direct aid, financed through taxes imposed on similar articles produced in organized industries.^{5/}

We thus see that the particular interests of private capitalists may run counter to the general interests of the community as a whole. From the point of view of society, the basic problem is that of speeding up the rate of economic growth. And in an underdeveloped country the feasibility of such a policy depends to a great extent on the creation of a profit-earning public sector, capable of accelerating public accumulation. This approach seems to find today strong support among economists in India and some other developing countries. At the Ooti Seminar, held in 1959 under the auspices of the Indian National Congress, V.K.R.V Rao stated emphatically: "Public enterprise must be conducted on a profit-making basis ... The theory of 'no-profit, no-loss' in public enterprises is particularly inconsistent with a socialist economy and if pursued in a mixed economy, it will hamper its evolution into a socialist society".^{6/} His views were, however, strongly attacked by spokesmen of private big business and a polemic ensued in the Indian press.

^{5/} Cf., for example, Planning for Sarvodaya, Kashi, 1957, pp. 82-4.

^{6/} V.K.R.V. Rao, "Price, Income, Wages and Profits, in a Socialist Society", AICC Economic Review, July 22, 1959, p. 72.

Accepting the principle that the public sector should have its own accumulation in the interests of economic growth, doesn't mean that it should consist exclusively of enterprises of type X_{3j} .

In some cases, subsidizing the private sector through enterprises of the x_{1j} or x_{2j} type may be excused on economic and social grounds, as part of developmental policies. The necessity may also arise of granting the population a supply of certain cheap goods through subsidized retail shops, enterprises of the type X_{15} or X_{25} , or of ensuring cheap transport, enterprises of the type X_{11} or X_{21} . The cases just mentioned should be considered, however, as an exception rather than the rule.

The rate of profit of public enterprises in a mixed economy with a predominant private sector would depend in principle, on prevailing market conditions: while under conditions of public monopoly, or in a public sector-dominated economy it would be regulated, through price manipulation, according to the required rate of capital accumulation. The practical solutions will most probably lie in-between and will depend to a considerable extent on the existing profit-pattern and inter-branch relations, as they have historically emerged in a given economy.

Thus, from the analysis by rows there emerges the picture of two different approaches to the profitability of the public sector. There are also, as we shall see from the analysis by columns, sharp divergences with respect to the branch-wise distribution of public enterprises.

Columns x_{11} , x_{12} and x_{13} broadly correspond to Department I production of producer goods, turning out goods, subsequently used by x_{13} and x_{14} or by corresponding private enterprises. That is why capitalists desiring prospective external economies, may in certain circumstances favour the development of public enterprises x_{11} , x_{12} and x_{13} , mostly if they are situated in the first and second rows. This is particularly true of public enterprises of the type x_{11} , taking into account such factors as the high capital concentration required, the low profitability and the long maturation period of the investment.. Even big capitalists are reluctant to go into such ventures; it is quite difficult, for instance, to find now a days private monopoly capital willing to build power stations in underdeveloped countries.

/At this

At this stage we must introduce a further distinction between big and small capitalists. While the former may be tempted to enter into X_{32} and X_{33} , the latter cannot hope to do so. So while big capitalists only reluctantly accept public sector enterprises in x_{13} and x_{12} , small capitalists may even prefer to see there public enterprises instead of private national and foreign monopoly groups.

From the viewpoint of national development, State control of x_{11} is extremely important, due to the strategic importance of public utilities for the whole economic system^{7/}. In turn, x_{12} and x_{13} constitute the basis of a rational programme of industrialization, since in this programme the development of Department I industries should have priority. This normally will not be accorded by private interests, guided by considerations of quick and high profit and limited by the high level of required capital concentration. Private interests will instead show a tendency to rely on imports of foreign capital goods, reserving for themselves above all the internal market for Department II goods.

The case for the public enterprise in X_{14} , x_{15} and x_{16} is to be argued on the grounds of fostering capital accumulation within the public sector in order to expand x_{11} , x_{12} , and x_{13} . The easiest way of doing this is to explore the points of direct contact between the public sector and the consumer, or the points of contact between the national economy and foreign markets.

Our considerations up to now of the nature and the scope of public enterprises may be summarized as follows.

1. Both big and small capitalists would like to keep the public enterprises confined to the first two series and as much as possible to the first column, and to a lesser extent to the next two. On this last question their

^{7/} Some Latin American countries provide a good illustration of the possible dangers resulting from foreign domination of basic utilities. For some years foreign firms operating the power stations were able to deliberately slow down the rate of overall industrial expansion, since the power supply was running short of growing requirements.

attitudes may, however, diverge with small capitalist preferring public ownership of x_{12} and x_{13} to foreign or national monopolies in these fields, while big capitalists, if they feel confident enough, may wish to keep Department I as an exclusive field of activity for themselves.

All sections of capitalists welcome State activities in the financial field, if they are meant to foster the development of the private sector and are confined to X_{16} and X_{26} . The expansion of X_{16} and X_{26} is frequently presented as an alternative to the development of public enterprises in all the remaining sectors. Finally, as a rule they oppose the entry of the State in the field of x_{14} and x_{15} , trade and Department II, on a permanent basis, but they do not object to the pioneering efforts of the State in any of the columns, provided the State hands over to the private sector the new enterprises, as soon as they cross the borderlines between the second and the third rows. Such an arrangement involves socializing the risk of new ventures, while reserving the profits for the private interests.

2. If one considers the steady development of the national economy as a whole, instead of private capitalistic interests, one must come to the conclusion that it is necessary to expand the public sector in the first three columns. Rapid development of social overheads and basic industries - which in an underdeveloped country can be only undertaken by the State - conditions the rhythm of expansion of all the remaining sectors of the economy. Moreover, in countries where domestic big monopolies have not exerted as yet an overwhelming influence, and where the scope for the activity of foreign monopolies is being limited, the development of x_{11} , x_{12} , x_{13} may also have a certain anti-monopoly effect, preventing, or at least slowing down, the development of private monopoly capital in the key sectors of the economy.

Considerable expansion of basic industries of the type x_{11} , x_{12} , x_{13} will be possible only if they do not prove to be a burden on the current expenditures of the State. And for this they should be kept in the third or at least in the second rows, according to our classification. Moreover, a certain area of public enterprises in X_{34} and X_{35} would be required to increase capital accumulation within the public sector and expand it in the first three columns.

/The two

The two areas of preference described above partially coincide and the points of coincidence have been frequently explored in political settlements consisting of compromises between programmes of national development and the interests of big capital. The Second, and to a certain extent, the Third of India's Five-Year Plans are good instances of such a compromise. These two areas of preference may nevertheless, be considered as representative of two divergent patterns of the public sector in an under-developed economy.

The first of these models is characterized by the following features:

- (a) the public sector is given a permanent place in the economy and its rate of growth is to be higher than that of the private sector, so as to achieve progressively a situation of predominance of the public sector in the whole economy;
- (b) certain strategic branches of production are reserved for the State and in these branches the predominance of the public sector is to be achieved as soon as possible;
- (c) as a result of (a) and (b) the development of private monopoly capital will be restricted or at least slowed down;
- (d) planned industrialization with the public sector as its main support, and Department I industries as its main concern, is launched to lay the basis for a self-sustaining growth of the economy and to strengthen the economic independence of the country;
- (e) comprehensive planning - not only financial but also physical - assumes a growing importance.

The main characteristics of the second pattern are almost opposite, as indicated below:

- (a) the public sector is to have a permanent place only inasmuch as it covers "social overheads" in the field of public utilities and provides public finances for private enterprise, considered as a substitute for productive public enterprises, so that capital accumulation within the public sector hardly takes place, and taxation remains the main source of revenue; financing by the State of private industries is considered as alternative to the State entering the field of industrial production;

/(b) the State

- (b) the State may start new industrial ventures, but their "privatization" is foreseen as soon as they become profitable;
- (c) the State pursues a policy of the conscious formation and strengthening of the capitalist class and thus facilitates the formation of monopoly groups;
- (d) since the domestic capitalist class is too weak, an "open door" policy towards foreign capital is pursued;
- (e) planning remains embryonic and is generally confined to "programming", based almost exclusively on financial considerations.

These are two extreme and opposite patterns which are not to be found in their "pure" form anywhere. But their elements and intermediate solutions more or less approximating one or the other, are present in all the underdeveloped countries. In this sense, these patterns may be useful as a frame of reference. The choice between them being mainly a matter of politics, the ruling circles in many underdeveloped countries prefer the second pattern, in spite of the fact that the first would assure a quicker rate of growth of the economy.

They may be conventionally called respectively: the "Indian Pattern" and the "Japanese Pattern". But it should be made clear that these are only conventional names.

What we call the "Indian Pattern" does not reflect fully the present Indian realities; in India, like in other developing countries, elements of both the patterns may be found. The "Indian Pattern" is rather a rationalization of certain ideological and political commitments of the Indian National Congress, expressed in such documents as the Second Five Year Plan, the Industrial Policy Resolution of 1956, the Avadi resolution, etc.

The "Japanese Pattern" owes its name by analogy with the policies pursued by the Japanese government during the Meiji Restoration. But the parallels are by no means complete. For instance, Japan did not follow at that time the "open door" policy for foreign capital, not to speak of the completely different historical circumstances.

The next stage of our study of the forms of State capitalism in underdeveloped countries will consider the patterns evolved above in the light of historical material. It is to be hoped that this will render the models a more realistic shape. I propose also to use them concomitantly as a frame of reference, and to inquire to what extent elements of the Japanese and Indian Patterns may be traced in the economies of some developing countries.

