

Free market losing ground

Until about the mid-1980s we had been practicing what used to be called the planned economy. It used to be the state that would determine the direction and thrust of our economy over a medium term of five years. By mid-1980s with the near collapse of the Soviet Union and the emergence of a new international economic order promoted by US President Ronald Reagan and British Prime Minister Margaret Thatcher, based on the principle of what is called the free market economy propounded by the Milton Friedman's Chicago school of thought was the new name of the economic game.

Lately, this model too is being increasingly questioned because of the massive inequality that it has caused in both the developed and developing countries.

In Pakistan, this model has not only caused massive inequality but it has also pushed the country into a debt trap along with reducing its ability steeply to earn enough foreign exchange to repay its foreign debt because our private sector on which depends the success or failure of the free market economy model is more of a rentier rather than entrepreneur and innovator. It is also because of this rentier approach of our private sector that we have consistently failed to restructure the economy on the lines that successive IMF programmes have prescribed. And even those few (three?) Fund programmes that we were able to complete have been made possible by a number of waivers allowed by the lender of the last resort.

The failure of the free market economic model in the developed countries to enhance the quality of life of the majority of their citizens in proportion to the wealth that this model is creating has led to a new debate among the champions of this model in the rich West. This debate seems to have thrown up a third model which its proponents claim would be something in-between the planned and the free market economies.

At this juncture in its economic history which has not been all that uplifting, the economic experts in Pakistan, both the official managers as well as the independent ones would do well to follow rather closely this on-going debate on a proposed new economic model raging in the developed countries.

According to Jochen Steinhilber (The free market is not the answer - published on May 22, 2019 in International Politics and Society newsletter), the world needs a new economic order that serves the public interest which is actually a plea for a more democratic economy.

The author of the article says that in view of the 2008 financial and economic crisis, which led the global economy to the brink of the abyss following scandals over the manipulation of interest rates, cum-ex trades, the Panama papers and tax avoidance as an economic model; and after the massive cases of fraud in the automotive industry, it was difficult to continue to repose trust in the private sector's ability to cope with the challenges of the future.

This is where, he says, a rethink must begin and adds "granted, the model of a highly centralised state economy was a failure, but there's also little to suggest that we would be well armed for the future with the private concentration of capital and economic power in the hands of a few or with shareholder value and privatisation strategies."

The good news, according to him, is that these two alternatives don't exhaust our options and that it's not just a matter of 'whose name is on the doorbell', but of who gets to decide on and control the basic goals and rules of business. Therefore, in his opinion, thinking about approaches to economic democracy is neither far-fetched nor regressive, but a long overdue contribution to the issue of how best to tackle social justice, environmental change and democratic renewal.

In fact, he maintains, today many see the economy mainly as a private matter in which the state should intervene at most to solve a crisis, as it did in 2008. But as he says the economy is an economic matter - one with consequences for society, therefore, if we want to halt the surrender of democratic political power to economic actors and reverse this trend, and if we want social goals once again to set the framework for economic action, then we must think about how this should be achieved.

He believes that some pointers towards necessary components, strategies and social agreements already exist; an economic democracy involves higher levels of state intervention in and democratic control over economic processes.

He maintains that with the exception of the large companies in the coal and steel industry, when it comes to corporate co-determination the employers call the shots. On the other hand, he suggests in an economic democracy, supervisory or advisory boards would always have to include equal representation for capital and labour, possibly supplemented by a third seat representing the state, consumer protection and environmental concerns, among others and these bodies would also have to decide on key corporate issues such as financing, investment, profit appropriation and relocations.

In his opinion, countries also need to revive the idea of promoting cooperatives and self-governing enterprises under employee ownership. In many countries, he argues, they were born of necessity and play a major role where the market and the state have failed and insists that as an element of economic democracy, the state must specifically promote and protect them and it must also provide the 'development tools', such as infrastructure, capital, technology and knowledge, for cooperative and public interest-based approaches.

According to the author, economic democracy also means enabling people through their thoughts, actions and interventions to make a difference in a central area of their lives and - in cooperation with others - to regain ownership of their world. Numerous examples of self-governed companies, in his opinion, demonstrate that these measures are not at odds with efficient and effectively run businesses.

According to the author, economic democracy calls for social agreements, for example over the sectors that should not be profit-driven because they provide existential basic goods. This applies, in his opinion, first and foremost to the energy, water and health sectors, to housing and to the provision of transportation and digital infrastructure. In other sectors, he adds, the key issue will be to restore performance-based competition or to protect it through strong anti-trust laws that prevent the concentration of economic power.

"It's difficult to answer the question how much sway economic planning must have in an economic democracy and how it can be designed in democratic and efficient ways. And lest we fall prey to a caricature - no, it's not a matter of society determining every detail of production and consumption. Rather, it's about influencing the central instrument for controlling the economy, namely the investments that decisively influence what, how and where things are produced and how technology is to be implemented. This calls in the first instance for a massive expansion of instruments for indirectly steering investment, such as taxes, incentives or the denial of public subsidies.

"In order to ensure that important tasks for the future are accomplished, corporate taxes can be used to secure funds for social investment which are then funnelled back to the companies in accordance with the guidelines of parliaments and planning councils. In those cases where large corporations structure entire markets, it could make sense to convert private capital into public property. Restructuring the banking and financial sector and stabilising it with a strong public sector are prerequisites for a democratic economy.

"In all likelihood, nobody can currently claim to have a finished concept of economic democracy. In any case, the best route to more democracy in the economy does not lead through a master plan, but through different concepts for answering different questions - and certainly also through public reflection and a public debate. For many difficult questions remain open, such as the relation between the public and private sectors, how to strike a balance between entrepreneurial autonomy and public control, and how economic democracy can be implemented and formulated under the conditions of a global economy.

"Nevertheless, we should not relativise our expectations. Today democracy is a firmly-anchored value in our society and is regarded throughout the world as the norm of good social coexistence, because it keeps power available in principle and distributes it among many, instead of cementing and concentrating it in the hands of a few. The practice of democracy should therefore permeate all areas of society. So far, there's no reason to believe that democracy is not also the guiding principle for a good economic order."

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