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HARMFUL ECONOMIC SYSTEMS AND ECONOMIC DEVELOPMENT

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1. Introduction.

In this paper, we would like to address a major failure of economics: not including harm in the basic analysis of economics, and how this failure affects its understanding of economic development.

The standard economic model of how economies work is that people produce and exchange goods. Governments exist to provide “government goods”— things that people cannot provide for themselves, such as national defense. Thus, the standard economic view is that activities are essentially productive. While this view has made for a thriving profession of economics, it is not a correct view of reality. The principal difficulty is that there is economic activity that is unproductive and harmful (from the point of view of those being harmed), and that this is a key feature of the economic organization of societies. Much of this has occurred in the past, and the economic structures which we see today reflect this. What we are saying is similar to Marxist economics, however it focuses on a concept, “harm,” that could and should be integrated into standard economics, not only Marxist value theory. Marxism believes that labor power is the source of production and income. Capitalist appropriation of this income is called exploitation. The approach in this paper believes that there are two major ways to obtain income: production and harm. Both exploitation and harm involve taking away from production, though the conceptual underpinning is different, and what in practice might be considered exploitation or harm might be different, although in many cases I believe they would be similar. In life, taking away from another is widely disapproved of, and there are a range of “disapproval reactions” that vary according to the circumstances, including moral opposition, jail time, and revolution.

What follows is a brief analytical description of these societies, and how such societies affect people's welfare and development. Most, if not all, real world societies are a mixture of productive and harmful elements. The paper is directed to undergraduate students who are taking economics, as well as general readers, in the hope that it will help them to understand the major failing of economics and address it in their studies. We have almost exclusively used citations that can be accessed through the web so that readers without access to professional journals and specialized books can obtain further information.

Many societies have been run on this basic set of principles. Take and maintain control of the government. Use powers of the government to obtain income. Key elements of this process are described in three sections:

- Obtaining income
- Maintaining control
- Restricting entry

A fourth section discusses the impact of harmful economic systems on poor people and on development.

Production vs. harm. The basic idea and activity in productive societies is helping to produce goods—things that are useful to someone—food, light bulbs, cars—and then exchanging the income received for goods that are desirable to you.

The fundamental economic mechanism exists in “harmful” economic societies as well. But these goods (or the resources that produce them) can be reallocated through force, as well as law (backed by force). Simply put you can produce goods, or take them away from others, which is why we describe these societies as harmful. The highest stratum—the ruling class—obtains income in significant part through means which may be described as unproductive or extractive. This harmful behavior is often, even typically, intertwined with productive activity. Land is taken away by force; then land, a productive asset, is owned. The military in Egypt have used its position of power to acquire many productive assets.

Historical overview. Armed conflict, the fight by groups for control of the government or territory, has been throughout history the principal way in which harmful economic societies have been established. Its importance continues today, with struggles for territory and control of nations and governments. The result of conflict has typically been the domination of the winning side over the losing and the establishment of a pattern of income and resource allocation favoring the winners. Examples would be the Hittite empire (Wikipedia 2015), the Assyrian empire(s) (Wikipedia 2015), the Roman empire (Wikipedia 2015), the Norman conquest of England (Wikipedia 2015), the conquest of the territory that became the United States by various European powers and then the government of the United States, the British empire (Wikipedia 2015) and the Japanese Greater East Asia Co-prosperity Sphere (Wikipedia 2015).

Control over labor power is also an important way of using power to obtain income, with serfdom (Wikipedia 2013), slavery (Wikipedia 2015), and debt bondage (Wikipedia 2013) as important examples. Forced labor (International Labor Organization 2015) is a general modern term. Caste systems (Wikipedia 2015) can also confine people in certain types of work, with the Dalits (Wikipedia 2015) in India being an example.

Harm as a means of obtaining income can exist in other ways as well. These include theft, robbery, and larger scale organized crime (Wikipedia 2015), such as the Mafia (Wikipedia 2013) or drug cartels (Wikipedia 2015). These are to some extent outside the structure of harm organized or facilitated by government, which is this paper’s topic of discussion.

2. Obtaining Income.

Income can be obtained in various ways.

Through the government. People at the top of government, or those who have significant control over the government but who are not government officials—often entrepreneurs or corporations—can and do obtain resources coming into the government. Government revenue is often not devoted to beneficial services but siphoned off by those in control of the government. Such activity is typically referred to as corruption. A nation expects that its national resources will be used for the benefit of the nation. However, very large amounts of such revenue are often used to enrich those who control or have influence with the government. People at lower levels of government can obtain income too, by not providing services which they are paid to provide, by charging for services which they should provide, or by taking goods, such as medical supplies or automobiles/trucks, which should be used for government service. See Transparency International (2015) for its measure of corruption in the countries of the world.

Access to natural resources and productive opportunities. Privileged groups can often obtain access to national resources and productive opportunities. The allocation of natural resources such as oil and the resulting income frequently go to international corporations, allies of high government officials, and government officials themselves. Land is continually being taken from the poor and powerless. See *The Guardian* (2015) for some recent examples. The system of justice is biased toward the rich, enabling them to bend the law in their favor. Taxes owed to the government are avoided.

Part of an historical process. These structures of domination, control and income distribution have been going on for many centuries and have resulted in highly unequal societies. For example, the Spanish conquest of Latin America resulted in a society where land and other natural resources and larger scale economic opportunities were in the hands of a few. There has been a segue from colonialism (Wikipedia 2015) to neo-colonialism (Wikipedia 2015) today.

3. Maintaining Control.

There are two aspects to maintaining control: keeping people oppressed and avoiding overthrow by others.

The first is keeping people oppressed. There is part of the population that is living well because of their control of assets and people. The people whose assets and income have been reallocated don't like this and thus there is the threat of revolution—overturning the minority in benefit of the majority. There are two powerful ways of changing a harmful economic system—through revolution, or through democratic processes. Both have been common in the past and today.

The second is avoiding overthrow. Avoiding overthrow is very like preventing revolution, but it is preventing overthrow by others who would maintain a structure of harm.

The struggle for control. Key ways in which the struggle for control of the government occurs is through armed conflict, managing the “democratic process” in ways that favor those already in control of the government, coup d'états and other more or less violent, more or less legal, government reorganizations.

Armed Conflict. There are many examples of armed conflict in the world today. Examined more closely, this conflict is typically over control of the government or specific territory—often territory with natural resources. Thus, this conflict is over who will establish control over government/territory and subsequently over control over resources, including the power to tax, arrange oil leases, and so on. Examples would be conflict between the more-or-less established government and rebel or other groups, conflicts between governments, done surreptitiously or openly, conflicts between governments, and conflict between government and organized crime.

Managing democracy/ “jockeying for power.” There is also quite a bit of “jockeying for power” which can involve such actions as removing a threatening member of the ruling coalition or changing the rules, such as rewriting the constitution so that the President is not limited in the number of terms he can stay in office.

Coup d'états, “revolutions,” and other means. There is a substantial amount of more or less violent, more or less legal, rearrangements of governments or attempts to do so. Coup d'état is where one group, typically members of the government/winning coalition and typically including at least a segment of the military, oust those at the top of the current power structure and replace those people with their own. (The overthrowing group does not want to refer to its seizure of power as a coup, and thus uses terms such as revolution.) (See Wikipedia 2015 and Luttwak 1968.)

Key groups. Nonetheless, force is by no means the complete story of how a winning coalition establishes and maintains control. For many countries in relatively recent times, groups who have been importantly represented in the sector that has political and economic control are capitalists, both national and foreign, landholders, the military, a group that we might refer to as “educated civilians” including government functionaries and politicians, foreign governments, and more rarely and more debatably, organized labor.

Why was the winning coalition that ended up in control of the state formed from members of at least some of these groups, who are far from representing a majority of the population? The central part of the answer seems to be that these groups have power capabilities useful in capturing, controlling, and operating the state apparatus.

The military has control of the largest part of the armed force. Capitalists and landholders have resources and organization that they can use to obtain influence. The educated civilians derive their power from a number of sources. They have the ability to run the “ship of state.” As lawyers and administrators, they often perform crucial functions for capitalists and landowners as well. As politicians, they have special skills in putting and keeping a coalition together, and as writers and orators they can mobilize support for their coalition.

Foreign governments have both organization and control over financial resources that can be used in such diverse ways as financing the election of sympathetic nationals or providing a “carrot” incentive to hard-pressed governments through foreign aid. As suppliers of modern armaments, often on generous terms, the large foreign governments also have an influence through the military, which is no less important for being derivative. They control, or greatly influence, major international institutions such as the World Bank, the International Monetary Fund and the World Trade Organization, whose decisions affect developing countries. Finally, developed country governments may use force against a developing country government.

Organized labor (and other organized groups), to the extent that it is in the winning coalition, seems to derive an important part of its power from its ability to disrupt the functioning of crucial sectors of the economy and from its potential as an armed force, factors that tend to put organized labor in opposition to the military. In addition, they, like landlords and capitalists, have economic and organizational strength, and where elections are a factor, some degree of voting power as well.

How is a structure of harm maintained? Ways in which a structure of harm is maintained include the following:

- A key use of the revenues of the winning coalition is to pay the members of the coalition sufficiently so that they will not be tempted to overthrow or reform the current coalition. The gradation of rewards and status within the winning coalition helps keep costs of maintaining the winning coalition down, and provides “career paths” for those in the winning coalition.
- Installing loyal supporters in key areas is important for those at the top of the winning coalition.
- Manipulating or subverting an ostensibly democratic legal framework. Election fraud/rigged elections is a principal way of staying in power.
- There is typically the development of a ruling class ideology to strengthen cohesion (e.g., the divine right of kings, capitalism as the engine of growth), ideologies which often include the disparagement of those who the winning coalition needs to control.
- Terror in its various forms, and controlling means of communication, can help those at the top of the winning coalition keep other coalition members in line, just as they are useful in preventing revolution.

- Various things strengthen the cohesion of those in control. The ruling class can be a racial or religious minority in society. This in itself provides cohesion. The threat of overthrow by the majority can increase cohesion.

4. Restricting Entry.

Restricting entry to the harmful sector is necessary, because an income differential exists between the productive sector and the exploitative sector. If free entry, the standard assumption made in economics, were allowed into the harmful sector, incomes in the two sectors would be equalized. Barriers to entry into the harmful sector include:

- being of a different tribe, nationality or religion
- racism, sexism, or other strong prejudice against a given group.

The way barriers to entry work is to limit access to worthwhile employment, as well as other social advantages such as education and ability to marry outside of one's class or group. Typically, minorities/ordinary people have been disparaged in some way—for their supposed (lack of) intelligence, personal appearance or for some other reason. People can be marginalized because of their skin color, ethnic origin, income level, or indications of same, such as names. For example, in the U.S. south before the 1960s, African Americans were not allowed to drink from the same water fountains as whites, shop in most stores, eat in the same restaurants, or live in the same neighborhoods. Their personal characteristics such as intelligence and appearance were disparaged. They were referred to in insulting ways. Basic justice was denied them. Schools were much worse. Such discrimination limits people's opportunities and diminishes their sense of self-worth. Though there has been a reaction against this sort of disparagement and oppression in many ways in many countries, it still persists.

5. Impact of Harmful Economic Systems on Poor People and on Development

The influence of harmful economic systems on the welfare of poor people and the development of poor nations is profound.

Resources, both governmental and other resources, such as natural resources, are directed toward members of the ruling coalition, not to the benefit of all. For many governments, the government/people in the government and their allies, in spite of lip service to the contrary, are not completely engaged in helping the people of the country, but rather to a substantial degree in helping themselves. This has, and continues to have, a disastrous effect on the incomes of poor people and development.

Conflict. There is a substantial amount of conflict in the world, most of it in developing countries. The 2012 Human Security Report says that there are 30 to 40 state-based armed conflicts per year on average; there were 23 non-state (neither side was a state) armed conflicts in 2009; and there were 19 cases of one-sided violence in 2009, the last year for which statistics were available (Human Security Report Project 2012). According to the U.N. High Commissioner for Refugees (2012), at the beginning of 2011, 43 million people were forced to flee their homes with 26 million displaced within their own country, 15 to 16 million refugees displaced to another country, and 1 million asylum seekers. Conflict is the principal cause of this displacement.

There is a very unequal distribution of income and this has persisted over centuries. It is important to remember that harmful economic systems have existed throughout history, and a

key result has been very unequal distribution of income. (The distribution of productive assets is not just due to the operation of the productive economic system, as standard economics would have it.) There is a “dead hand of the past” though perhaps most of us, including standard economists, recognize it only dimly. In the United States, for example, the Native Americans were almost totally pushed off their land, ending up with a few small, or if larger, hardscrabble, areas of land. Slavery oppressed African Americans from the beginning of European settlement in North America, and though ostensibly freed after the Civil War, severe oppression continued for 100 years or more. This in a country that many view as a model of democracy. In other areas of the world control of countries and resources by a minority has also resulted in serious income inequality. The result is that poor people have substantially less income. This lower level of income is not, for many, just missing out on a few luxuries. It is a major cause of malnutrition, which causes greater infant mortality, stunting, and reduced cognitive ability. It is a major cause of poor health—many basic services such as clean water, waste disposal, and essential health services are not available at all. It is a major cause of poor education. And it is not only a matter of “providing” poor people with more human capital and other resources as economic analysis focusing on production would say; it is a question of correcting a system which is structured against poor people.

Barriers to entry also inhibit people’s incomes and life chances. It is not simply a matter of income as discussed in point 3. Caste, race, ethnic group, and gender (World Bank 2015) can keep people from education, from jobs, from having the rights of citizens, and from social interaction with the “elite,” including marriage and other forms of social inclusion. People cannot rise or can rise only with difficulty—they are kept in their “station in life.”

South Africa may be taken as an example. Prior to 1994, South Africa was a classic example of a harmful economic system, with whites controlling all key economic and political institutions, and blacks and other races kept subservient, restricted in where they lived, often deprived of what assets they had, and kept in low-income occupations. In 1993, the Gini coefficient (a measure of family income inequality) for South Africa, was .593 (1.0 measures perfect inequality and 0.0 measures perfect equality) placing South Africa as one of the two or three countries with the greatest income inequality in the world (World Bank 2017). The establishment of a democratic government in 1994, which lifted repression and extended rights to all of the people of South Africa was a giant step forward in reducing “barriers to entry” and the harm done to people. Spending on education for all, once restricted, is now a significant part of the government budget. Cash transfers, principally for children and the elderly, have been established (World Bank 2014). However, this very real progress did not significantly change the ownership of land or mining assets, South Africa’s principal economic assets. (Maintenance of this ownership was part of the bargain that ended white rule.) South African income inequality has actually increased since 1994 with the 2011 Gini coefficient at .638. Politicians and industrialists have done well, while poverty and unemployment remain high, and wages low.

As well, there are indications that the ANC, which has won South African presidential and congressional elections since 1994, is acting in ways which make it part of an elite that rules for its own benefit rather than working for ordinary people. President Jacob Zuma has fired two finance ministers, Prabhram Gordon and Nhlanhla Nene, who were considered to be bulwarks against corruption. A government report alleged that President Zuma permitted an industrialist to influence cabinet selections for the industrialist’s benefit. President Zuma also spent \$23 million of government money to improve his rural estate. Because of these and other actions, support for the ANC in recent elections has been reduced and there have been strikes and demonstrations against President Zuma.

6. Conclusion

There have been strong developments in standard economics in two areas for understanding real world economies: game theory-based conflict theory (Hersheleifer 1991) and rent-seeking theory (Wikipedia 2015). This means that standard economics does now have some capability of understanding an economic system where production and harm are intertwined (and those writing in the field do understand this issue more than ever before.) However, this understanding has not penetrated the rest of economics, including textbooks for undergraduates or the organization of knowledge in the field of economics.

I would urge students taking economics courses to do two things. Economics as taught does not give an adequate conception of reality. To remedy this, draw on the resources of radical political economics (e.g. Bowles et al. 2005), as well as other social sciences such as political science and sociology. And you should raise these issues in the classes that you are taking; students can and should be a force for change. □

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