A NEO MARXIST RE-APPRAISAL OF KENYA'S ECONOMIC GROWTH AND SOCIAL TRENDS

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DECLARATION

I hereby declare that this dissertation is my original work and has not been presented for the award of a degree in any other University.

Signed________________________________ Date _________________________________

This dissertation has been submitted for examination with our approval as the University Supervisors.

Supervisor : **Prof. Maria Nzomo**

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Supervisor : **Martin Nguru**

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DEDICATION

To my dear husband Musili, and our adorable kids Governor, Beverly, Babelee and Simba, be blessed for your support throughout the study. I hope Simba will one day understand why a "*grandmother*" (as he once put it) has to struggle with studying at an advanced age, even with a well-paying job**!**

TABLE OF CONTENTS

Declaration....................ii
Acknowledgment....................iii
Dedication....................iv
Table of Contents....................v
List of Figures....................viii
List of Abbreviations....................ix
Abstract....................x
CHAPTER ONE....................1
1.0 Introduction to the study....................1
1.1 Background of the Study....................1
  1.1.1 Structural Adjustment Programs....................3
  1.1.2 Globalization and Structural Adjustment Programs....................4
1.2 Statement of the Research Problem....................6
1.3 Objectives of the study....................7
  1.3.1 General objective....................7
  1.3.2 Specific Objectives....................7
1.4 Research questions....................7
1.5 Hypotheses....................8
1.6 Justification of the Study....................9
  1.6.1 Academic Justifications....................9
  1.6.2 Policy Justifications....................9
1.7 Scope and Limitation....................9
1.8 Organisation of the study....................10
CHAPTER TWO....................11
2.0 Literature Review & Theoretical Framework....................11
2.1 Introduction....................11
2.2 Trends in Contemporary Literature....................11
2.3 The dependency approach....................14
2.4 Liberalism, Competition and Exploitation....................14
2.5 Neo-liberalization and economic growth....................22
2.6 Empirical literature....................25

2.7 Liberalism and other policies.......... 30
2.8 Corruption.......... 31
2.9 Inflation.......... 32
2.10 Investment Policy.......... 33
2.11 Neo Marxist policies and economic growth.......... 34
2.12 Theoretical framework.......... 39
2.13 Key theories related to the study.......... 39
2.13.1 Neoliberalism.......... 39
2.13.2 Neo Marxism.......... 39
2.14 Neo Marxist policies and economic growth.......... 40
CHAPTER THREE.......... 43
3.0 Methodology.......... 43
3.1 Introduction.......... 43
3.2 Research Design.......... 43
3.3 Data collection.......... 43
3.4 Data reliability and Validity.......... 44
3.5 Data management and Analysis.......... 44
3.5.1 Data Appraising.......... 45
CHAPTER FOUR.......... 58
4.0 Discussions and conclusion.......... 58
4.1 Introduction.......... 58
4.2 Summary of Key findings.......... 58
4.3 Discussion.......... 59
4.3.1 The vibrant Kenya's economic (GDP) growth between 1960 and 1979.......... 59
4.3.2 The poor Kenya's economic (GDP) growth between 1980 –present times.......... 60
4.4 Social trends in the period between 1960 and 1979.......... 65
4.5 Social trends in the period between 1960 and 1979.......... 66
4.6 Effects of Neo Liberalism.......... 66
4.7 Conclusion.......... 68
CHAPTER FIVE.......... 69
5.0 Findings, Recommendations and Conclusion.......... 69
5.1 The key findings.......... 69
5.1.1 Liberalization Caused Undue Competition to Kenya's National Economy.......... 69

5.1.2 Liberalization led to exploitation of national (Kenya) bourgeoisie by international bourgeoisies 69
5.1.3 Withdrawal of State Controls Affected Economic and Social Growth Patterns in Kenya 70
5.1.4 Neo-Marxist Policies Would Have Produced Different Economic Growth Patterns 70
5.2 Recommendations 70
5.2.1 Neo-Marxist Policies that Kenya Adopted at Independence Need Further Study 70
BIBLIOGRAPHY 72

LIST OF TABLES

Table 1 Macroeconomic Indicators between 1970 and 2000 46
Table 2 Decomposition of GDP Growth between 1960 and 2000 49
Table 3 GDP and Per Capita in Kenya, 2000-2004 51
Table 4 Social Trends in Kenya, 1980-2000 52

LIST OF FIGURE

Figure 1 Real GDP growth, 1970-2000 (Percent) 50

LIST OF ABBREVIATIONS

AFC	Agricultural Finance Corporation
GDP	Gross Domestic Product
ICDC	Industrial Credit Development Corporation
IDB	Industrial Development Bank
IMF	International Monetary Fund
LDC	Less Developed Countries
NAFTA	North American Free Trade Agreement
SAPs	Structural Adjustment Programs
SS	Stolper Samuelson
TNCs	Trans National Companies
UNDP	United Nations Development Program
USA	United States of America
WB	World Bank
WTO	World Trade Organisation

ABSTRACT

Kenya has suffered slow economic growth since the late seventies. The economy was on a very steady rise from independence. The switch from neo Marxist to neo liberalised economic policies has been sighted as the main cause of this economic meltdown. It is clear that Kenya thrived well under the Neo Marxist periods after independence. Many countries in the third world have suffered because of adopting the neoliberalised economic policies. On the other hand, Kenya’s peers that stuck to Neo Marxism have grown to huge economies. Is it time that Kenya reverted back these policies?

CHAPTER ONE

1.0 Introduction to the study

1.1 Background of the Study

Economic growth is the increase in the capacity of a country's economy to produce goods, compared from one period to another and the resulting quality of life of the citizens of that particular country. It is measured in terms of the gross domestic product (GDP).

When Kenya gained Independence in 1963, it did so in a period of global economic expansion and stability. Commodity prices were generally high and the country benefited from these high prices. In addition, the country was left with significant foreign exchange reserves and was therefore able to deal with economic instability. The first decade after Independence was, therefore, a period of economic prosperity and high aspirations[1]

In the first decade of independence Kenya made tremendous progression in economic development in that the gross domestic product (GDP) grew by 6.6 per cent. Savings and investment were relatively high for its per capita income. The expansion of primary, secondary, commodity prices were generally high and the country benefited from these high prices.The economic growth recorded was as a result of Kenya's economic policy which supported rapid economic growth and social progress through public investment, encouragement of smallholder agricultural production, and incentives for private (often foreign) industrial investment.

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[1] Husain, Ishrat & Faruqee, Rashid; *Adjustment in Africa: Lessons from Country Case Studies* M.A. Thesis, University of Nairobi; Washington, DC; the world Bank; 1994.

After experiencing moderately high growth rates during the 1960s and 1970s, Kenya's economic performance during the 1980s and 1990s was far below its potential. From 1991 to 1993, Kenya had its worst economic performance since independence. Growth in GDP stagnated, and agricultural production shrank at an annual rate of 3.9%. Inflation reached a record 100% in August 1993.[2] In the mid-1990s, the government implemented economic reform measures to stabilize the economy and restore sustainable growth, including lifting nearly all administrative controls on producer and retail prices, imports, foreign exchange, and grain marketing. Nevertheless, the economy grew by an annual average of only 1.5% between 1997 and 2002, which was below the population growth estimated at 2.5% per annum, leading to a decline in per capita incomes. The poor economic performance was largely due to inappropriate agricultural, land, and industrial policies compounded by poor international terms of trade and governance weaknesses. Increased government intrusion into the private sector and import substitution policies made the manufacturing sector uncompetitive. The policy environment, along with tight import controls and foreign exchange controls, made the domestic environment for investment unattractive for both foreign and domestic investors.

From independence, Kenya's Foreign Economic Policy took a Keynesian approach, a pragmatic foreign economic policy. On one hand, it opened the country to interaction with foreign economies and foreign institutions; but at the same time, it imposed restrictions on the external interactions.[3] The mixed economic policy orientation allowed free trade by

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[2] Republic of Kenya; *Economic Reforms for 1996-1998: The Policy Framework Paper*; Nairobi; Government Printer; 1996.

[3] Republic of Kenya; *Economic Reforms for 1996-1998: The Policy Framework Paper*; Nairobi; Government Printer; 1996.

relaxing barriers for some commodities but imposed restrictions such as high duty, quota system for some and a total ban for others in an attempt to protect local industries.

The same pragmatic foreign policy promoted investment through agencies such as Agricultural Finance Corporation (AFC) Industrial Credit Development Corporation (ICDC) and Industrial Development Bank (IDB) whose objective was to provide credit facilities with favourable terms such as grace period, low interest rates, grace repayment period and investment in public enterprises through nationalization of the economy, a Neo-Marxist angle.

1.1.1 Structural Adjustment Programs

The late 1970s and early 1980s were a difficult period for many developing countries because of high inflation, slow rates of economic growth, and declining earnings from exports. These factors affected national incomes and resulted in large government deficits, which in turn caused deterioration in the standards of living of families in the developing world.

During the 1980s, stabilization and adjustment packages were introduced in many developing countries in an attempt to stop further deterioration in standards of living. A range of macro-economic and structural measures, referred to as Structural Adjustment Programs (SAPs) were introduced in the first instance by the Bretton Woods institutions - the World Bank and the International Monetary Fund (IMF) - to restore internal balances and increase the role of market forces in the economy. These adjustment policies included various mechanisms designed to reduce imbalances in Third world economies, both on external accounts and in domestic resource use. The SAPs involved cutbacks in government expenditure.

Consequently, real government expenditure per capita fell in over half the countries of the developing world in the period 1980-1984. The impact of adjustment measures on local economic conditions varied widely as did the degree and consistency of their implementation. In sub-Saharan Africa, SAPs were implemented in only a handful of countries during the late 1970s, but by the end of the 1980s, most countries were formally involved.[4]

1.1.2 Globalization and Structural Adjustment Programs

In Africa, economic restructuring was a major component of the process of globalization; a post-Second World War phenomenon that has become manifest in the last three decades. This is a process involving the construction of a world system. Globalization entails the restructuring of the global, national, local and household economies, as well as social structures and livelihood strategies. It has transformed the international and local division of labor, changed relations of production, employment, the provision of social services, cultures and so on. These processes have affected communities in rural and urban Africa. SAPs were an important aspect of globalization. The restructuring process, coupled with the implementation of SAPs, has had a devastating effect on the provision of social services such as healthcare and education. Cutbacks in government expenditure created constraints in the provision of these services, leading to a decline in social welfare.

SAPs were expected to save the situation through the introduction of cost-sharing where services were free; retrenchment of staff in order to reduce the public wage bill hence reduce expenditure; privatization of loss-making enterprises that were a drain on the treasury;

[4] Agenor, Pierre-Richard; Does Globalization Hurt the Poor?'; World Bank Development Research Group, Working Paper No. 2922; 2002.

decontrol of the economy to allow for economic freedom to investment, remove marketing boards to allow private entrepreneurs to buy and sell agricultural produce according to supply and demand; remove international trade barriers by removing and or lowering tariff and non-tariff barriers and elimination of barriers to flow of investment capital to allow foreign direct investment.

In Kenya, these programs have been linked to the high rate of income inequality, inflation, unemployment, retrenchment, and so on, which have lowered living standards, especially, those relating to the material resources in the family. Furthermore, the SAPs in Kenya have been linked to the increasing deviant and crime rates, ethnic hatred and discrimination and welfare problems, especially in the areas of education and health.

The Structural Adjustment Programmes policy orientation was basically aimed at moving the economy from a state-controlled system to a liberalized economy. This set of policy programs are sometimes referred to as Neo-Liberalism. For each element of SAPs policy, the argument in favour had a liberal undertone.[5]

The basic argument for or against liberalisation concerns its contribution to economic and social growth. The Neo-Classical argue that by improving efficient allocation of resources, liberalisation stimulates higher economic growth; on the other hand the Structuralists argue that because of structural rigidities LDC economies will be faced with unfavourable international conditions, liberalisation will have minimal effect on economic growth.

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[5] Husain, Ishrat & Faruqee, Rashid; *Adjustment in Africa: Lessons from Country Case Studies* M.A. Thesis, University of Nairobi; Washington, DC; the world Bank; 1994.

1.2 Statement of the Research Problem

The switch from state controlled programmes to liberalized programmes was justified using insights from the neo-liberal argument that promises economic recovery and rapid growth. Economic decline was blamed on Keynesianism. Subsequently, some studies have shown that the neo-liberal agenda entailed in the switch from state-controlled policy programmes to liberalized policy programmes has not produced the originally envisaged results. This suggests that the neo-liberal reform agenda was not subjected to a thorough critique from alternative paradigmatic theoretical standpoint.

The policy reforms in Kenya since about the end of 1980s have been largely justified from the liberal standpoint, except for a few cases of Keynesianism such as free primary and secondary education. However, the validity of these reforms cannot be verified unless they are reassessed from perspectives of other theoretical view point and this is what has been missing in the literatures.

This study sought to depart from the conventional neo-liberal analysis and argument about the origin and impact of the liberalization economic policy orientation in respect to external relations since the turn of the 1980s. In so doing, the study endeavored to break the present impasse in the debate about the causes of the policy shift to economic liberalization and the benefits or pitfalls of this orientation relative to the statist approach. The effort was made through the introduction of the leftist Neo-Marxist dependency dimension to the debate with special reference to the Kenyan experience.

1.3 Objectives of the study

1.3.1 General objective

The overall aim of the study was to re-examine Kenya's economic and social growth from the Neo-Marxist viewpoint. This will assist us to establish the suitability of the economic reforms on the economic and social growth patterns in Kenya.

1.3.2 Specific Objectives

1. To analyze the data on the trends of the Kenyan GDP
2. To analyze the data on the trends of poverty in Kenya
3. To theoretically elaborate upon the channels and mechanisms through which the economic policies have affected the outcomes and the performance of the Kenyan economy.

1.4 Research questions

The study will be guided by the following questions;

1. What is ailing the Kenyan economic growth? What are the social effects of this ailing economy? This is the main question that this study will seek to answer. The Kenyan economic and social growth was robust after independence upto the late 1970s. However, after 1980, the economic growth has seen little progress. The poverty levels have increased. The gap between the rich and the poor has also widened.

2. How did we get here? Which economic policies can guide Kenya out of the economic quagmire? How effective are these policies? The second question will tend to examine the economic policies which have been in force since independence. The study will seek to

establish if the change from the state controlled economic system to the liberalised economic system has contributed to the dire state of the Kenyan economic and social growth.

The researcher will seek to answer these questions by:

a. Anayliticaly examining the data containing the trends in the Kenya's economic growth(GDP) and the resulting social impact. The social impact analysis will focus on the poverty trends resulting from the economic growth trends.
b. Theoretically elaborating upon the channels and mechanisms through which the economic policies have affected the outcomes and the performance of the Kenyan economy.
c. Performing an empirical investigation on the basis of the hypotheses derived from the theoretical considerations.

1.5 Hypotheses

Neo-Liberalists advocate for free market which the Neo-Marxists refer to as exploitative. The aim of the research will be to get the Neo-Marxist argument to critic the faulty Liberal arguments and will seek to test the following hypotheses:

H_1: Withdrawal of state controls affected economic and social growth patterns in Kenya;

H_2: Neo-Marxist policies would have produced different economic growth patterns

H_3: Liberalization led to exploitation of national (Kenya) bourgeoisie by international bourgeoisies

1.6 Justification of the Study

The findings of this study will be important to the following parties:

1.6.1 Academic Justifications

Findings from this research will identify academic research gaps that the study will fill in the current status of Kenya's socio-economic performance and foreign policy. The findings may stimulate other researchers to venture into re-assessing policies that have not been studied in the African context and propose mitigating factors.

1.6.2 Policy Justifications

The government can use the findings to assist in policy formulation and development of a framework to guide Kenya's economic development plans towards achieving Vision 2030. This study might also help in pointing out areas in which relevant regulatory agencies and government bodies especially policy makers can develop competencies and capabilities to improve Kenya's policies to the Kenyan economic growth's advantage.

1.7 Scope and Limitation

The areas covered in this study included the trends in the socio economic growth of Kenya. It also includes the reasons given by the government in switching from Neo-Marxism to liberalised economic model. The study endeavoured to bring out the possible results of the implementation of the neo-liberal agenda in Africa in general and Kenya in particular. There may be inaccuracy in some of the secondary data used arising from sampling methods used during research. This may be out of reach and determination of this study.

1.8 Organisation of the study

Chapter 1 Introduction

The introduction gives a glimpse of the Kenyan economic growth since independence, and the effects of the foreign policies adopted by the government.

Chapter 2 Literature Review

This chapter explores the key theories involved in the study.

Chapter 3 Data management and Analysis

In this section, the researcher methodically examined the data collected retrieved from different secondary sources on the Kenyan economic and social growth.

Chapter 4 Discussions and Conclusions

In this section, the researcher critically analysed the key findings from chapter 3.

Chapter 5

This chapter contains the summary, the key findings and the recommendations for further research.

CHAPTER TWO

2.0 Literature Review & Theoretical Framework

2.1 Introduction

The aim of this section is to review the scholarly studies on Neo-Marxism and Liberalization. The study will first review works on Liberalism highlighting debates on this theoretical perspective with regard to undue competition and exploitation. Secondly, we shall review literature on Neo-Marxism underlining contentions on this hypothesis with emphasis on effects of state control and economic and social growth.

2.2 Trends in Contemporary Literature

According to the definition of the International Monetary Fund, liberalization is the openness of an economy and the degree to which nationals and foreigners can transact without artificial (that is, governmentally imposed) costs (including delays and uncertainty) that are not imposed on transactions among domestic citizens. (Domestic citizens do not have restrictions on the amount of goods that they can sell and buy, nor do they pay high tariffs on produced goods. It follows, then, that to increase trade openness, policymakers should address the issues of non-trade and trade barrier reduction. The reduction of "artificial costs" will stimulate not only change in terms of trade, but also increase imports of new tradable goods, foreign direct investment, imports of capital and new technologies, change domestic markets, and allow labor imports and exports.[6]

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[6] Krueger, Ann ; Liberalisation attempts and consequences, liberalisation, direction of bias and economic growth; Foreign Trade Regimes and Economic Development, vol. 10; New York: National Bureau of Economic Research 1978; pp. 277–300.

The neo-liberal perspective takes the neo-classical economists' view in the supremacy of the market as a mechanism for allocating scarce resources in the economy. Neo-classical economists believe that markets develop naturally and possess impersonal forces that regulate the actions of individual actors; in this case, investors, in the economy. [7]Markets are presumed to be governed by objective laws and universal principles such as the law of supply and demand and the principle of comparative advantage It is also assumed that investors are rational profit optimizers and have perfect knowledge such that they make conscious choices to maximize their profits at the lowest possible cost to themselves. This means that the market mechanism which is composed of changing prices and quantities to which investors respond is viewed to be self-regulating and self-correcting and efficiently allocates scarce resources to their profitable use. Therefore, neo-liberalists assert that the logic of the market and its dictates must be heeded[8].

Neo-liberal policies such as deregulation and privatization tend to attract more foreign than local investment. The policies affect the controls on the movement of capital in and out of a country and government equity participation such that investment in the economy is left in the hands of private investors both foreign and local. Nevertheless, when a public enterprise is privatized under these conditions, it is often bought by a foreign investor. This is mainly because the boundaries for territorial control of states no longer coincide with the control of

[7] Smith, Adam; The Wealth of Nations; London; David Campbell Publishers; 1991

[8] Anderson, James; 'Trade restrictiveness benchmarks'; Economic Journal, vol. 108; 1998; pp. 1111–25.

its economic actors such that the privatization of a public enterprise attracts foreign investors who seek to maximize profits.

One of the most difficult tasks and debates facing the world economy is the task of raising the great number of people from poverty to acceptable levels of economic welfare. Early attempts by India and other less developed countries (LCDs) to make economic development an explicit objective of the post-world war economy at the 1944 Bretton Woods Conference were rejected by the United States and other industrialized countries. Debates regarding the relative importance of the state and the market in economic development; causing disagreements central to conflict between the developed and the less developed countries. The World Bank, the International Monetary Fund and regimes governing the world economy were established primarily to serve the interests of the dominant powers. Although industrialized countries have subsequently provided technical and financial assistance and given trade preferences, they have continued to resist LDC demands for a development regime.[9]

In this regard, the relevance of the neo-liberal perspective to this study is that it underlines the proposition that the fusion of foreign investment in an economy supplements local investment thereby contributing to the growth in the volume of investment as measured in terms of the value of capital. The neo-liberal perspective is silent on the diversity of sectors into which foreign investment flows in an economy.

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[9] Ayres, Jeffry; Framing collective action against neoliberalism: The case of the “anti-globalization” movement. [Electronic version]; *Journal of world- system research, 10*(1); 2004; pp 11-34.

2.3 The dependency approach

The dependency approach is linked with Marxism on the concept of exploitation of developing countries by developed capitalist countries. Dependency theorists believe that nations have been economically related through investment and trade from the dawn of the history of capitalism as a dominant mode of production and distribution. Therefore, the contemporary state of an economy must be explained in terms of its historical relations with other nations in a world capitalist system that is conceived of as having a core consisting of North America. Dependency theorists hold that capitalist system bestrides the globe through imperialism. The peripheral countries were integrated into the world capitalist system by unequal exchange where they exported primary agricultural produce and imported manufactured and intermediate capital goods. It is on this basis that dependency theorists conclude that the underdevelopment of the peripheral countries is a consequence of the development of capitalism on a world scale.[10]

2.4 Liberalism, Competition and Exploitation

The neo-liberal ideology asserts that competition is a fundamental feature of human life. In the neo-liberal view, people are competitive by nature, and society is seen as being a collection of self-seeking individuals that are competing for survival, power, wealth and prestige.[11] Therefore, the optimal social structure is that which creates institutions to

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[10] San, Ranjit; Capitalism, Imperialism and Underdevelopment in Economic and Political Weekly; Vol 10 No. 33/35, Special Number (Aug. 1975); pp 263, 1265, 1267, 1269, 1271, 1273, 1275, 1276

[11] Niggle, Christopher; Globalization, Neoliberalism and the attack on social security; [Electronic version]; *Review of social economy, 61*(1); 2003; pp 60.

encourage, protect and nurture competitive behaviour, such as the free market. It is the neo-liberal conviction that this competitive interaction in society will increase wealth and happiness.

Additionally, neo-liberalism emphasises that people are born unequal by nature. Inequality is not necessarily an evil, as neo-liberals believe that the contributions made to society by the best educated and the most successful people will eventually benefit everyone: the ‘trickle down’ theory. This implies that the poorest people should take responsibility for their lives and find their own solutions to raising their living standards and opportunities. The notion of equality in neo-liberalism therefore entails that no members of society should receive preferential treatment (referring to for example the poor, low-income groups or other people that are in an ‘unfortunate’ position or otherwise in need). Rather, the free market and its natural regulation of resources is regarded as creating justice in society.[12]

One would think that opening an economy benefits self-employed workers by making it possible to export more goods at a higher price, thus realizing increased profits and incomes for the poor. On the other hand, if such sector were protected before the trade liberalization, the poor might be hurt very badly by the impact of foreign firms on the competition within domestic markets. There is increasing competition will reduce the market power of domestic firms and could eventually force some of them out of business. Those who cannot handle the competition are usually poor producers and, thus, functioning before markets for them will disappear. Such a situation is called a “comer solution", which is possible because of the lost

[12] McGregor, Sue; Neoliberalism and health care; [Electronic version]; *International Journal of Consumer Studies, 25* (2); 2001; pp 82-89

government protection (in the form of subsidies, for example) or inefficient local production. The profits of the informal sector will decline: the firms will not stay competitive and will shut down. In the short run, unemployment and poverty will increase substantially. Thus, the effect on self-employed workers is not much different from the effect on employed workers. The former would be able to survive in the short term only with government subsidies or functioning credit markets. If those are not available, a sector will eventually recover because, in the longer run, a country will become more efficient in using its productive resources, but that takes time.

Classical economic liberalism demanded both absolute freedom of all economic participants and well-working and free competition as well. Its advocates, however, did not realize that absolute freedom in the market place allows, entitles and even stimulates monopolies and cartels to be built up. Absolute freedom to contract can and could destroy free competition. History teaches that this happened time and time again, up to the very present. Legitimized by absolute freedom, big companies in particular created monopolies and abandoned competition.

Insofar as competition is lacking, the expected positive effects of the market economic system, predicted by the 'paleoliberal' economic theory(footnote), are lost. Rid of competition, monopolists are tempted to increase their prices to consumers' disadvantage and to make a monopoly profit.[13] This misuse of the legitimate principle of profitability is best prevented when each economic participant must permanently compete with fellow

[13] Müller-Armack, Alfred.; Soziale Marktwirtschaft, in: Handwörterbuch der Sozialwissenschaften, Vol. 9: Stuttgart; 1956; pp.390-392; 391;

competitors in the marketplace. Competition forces the single enterprise to calculate its prices as low as possible in order not to be eliminated by fellow competitors, by the market. But real competition does not automatically result from the 'free play of forces'; on the contrary, the Laissez faire doctrine, the praxis of an absolute freedom is tempted to destroy this essential of the market economy.

Because of that, the state authority and politics as a whole have the responsibility to enable, to establish, and to promote competition, and to safeguard it against restrictions exercised by a freedom which acknowledges no limits. Legislators and government must therefore create the legal framework for every economic activity, business, trade and industry. This framework 'has to prevent restrictions of free competition as much as possible and, at the same time, to control unavoidable monopolies... in order to make competition work most effectively for the consumers' benefit'.[14]

According to Marx, all history is the history of class struggle between the ruling group/class and the dominated class. As it relates to states [the key actors in international relations], Lenin divided them into two groups: the oppressed and the oppressor. In relation to international politics, the classes are not classes in the strict sense as they are understood in the national analysis, but they are classes amongst states. In this sense, states, themselves, assumed class-consciousness on the world scale. Thus the oppressed (the workers or the developing countries) continue to create value and the value is not returned to them, but appropriated by the capitalists. Thus, it is not the capitalist ruling class that creates wealth,

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[14] Müller-Armack, Alfred.; Soziale Marktwirtschaft, in: Handwörterbuch der Sozialwissenschaften, Vol. 9: Stuttgart; 1956; pp.390-392; 391;

but the workers (which are the developing countries). The capitalists at the centre appropriate this wealth to themselves.

Ownership and control of resources, especially land, as well as access to markets, has been the basis for both political and economic power. Because of the ultimate dependency of the capitalist economic system upon such markets and natural resources, international conflict is endemic in a world of capitalist states. Capitalist states, by virtue of their political and economic systems, are said to enhance the livelihoods of conflict. The emergence of the Third world has necessitated the attempt to provide an explanation for endemic poverty. Underdevelopment was, and still is, generated by the very same historical process, which also generated economic development.[15]

The increased amount of intermediate and capital goods directly affects the employment and wages of the poor by changing factor prices. The benefits can be seen using a Stolper-Samuelson (SS) theorem, on which traditional trade theory. The theorem predicts that a relative increase in the price of a commodity will increase the real return to the factor used intensively in that industry. In a developing country, trade liberalization leads to an increase in relative prices of unskilled-labor-intensive products and, according to the theorem, real wages for unskilled workers. As the market for labor-intensive products expands the demand for unskilled workers increases thus the employment of the poor and real wages increase.

That is a very encouraging and powerful result of a general trade theory; however, the SS theorem is based on the assumptions of constant returns to scale, perfect labor mobility, and no market or policy distortions, which are almost always violated in developing countries.

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[15] Niggle, Christopher; Globalization, Neoliberalism and the attack on social security; [Electronic version]; *Review of social economy, 61*(1); 2003; pp 51-71

Moreover, it has been shown that trade liberalization can reduce the demand for unskilled labor. The basis for his argument is the assumption that trade openness usually associates with the introduction of high-level technology that only skilled workers can deploy. Given that there is a high degree of substitutability between unskilled labor and capital, a high degree of complementarities between skilled labor and capital, and an increased demand for capital that has become relatively cheaper, the demand for unskilled labor will decline. That may lead to higher unemployment rates and increased poverty, caused by job losses. If the poor do not have financial recourse to education, or there are no government support programs, or credit markets are imperfect, the short term-effect of decreased unemployment may translate into a long-run poverty trap.[16]

The West is accused of keeping poor countries in a position of subordination, dependency, and bondage by limiting investments to the extractive industries and by westernizing, subjugating, and bribing the new elites, who have an interest in modernizing their societies. In essence, the West always seeks new forms of keeping the peoples of economically underdeveloped countries in a state of permanent dependency.

In fact, several forces work within the capitalist system to reinforce the subordination of the poor to the rich countries. The rising elites in poor countries are persuaded to emulate the consumption patterns of the bourgeoisie in the rich countries and to create a demand for the importation of western goods. Also, the western capitalist system can be criticized for

[16] Agenor, Pierre-Richard; Does Globalization Hurt the Poor?'; World Bank Development Research Group, Working Paper No. 2922; 2002.

creating a labour aristocracy in the poor countries by paying a smaller number of skilled workers higher wages, rather than paying a larger number of unskilled workers lower wages.

The total effect on the welfare of the poor consists of the consumption and income effects, which seem to work in opposite directions so that the final result is ambiguous. The two can offset each other, but that conclusion is very vague and cannot be fully justified by theory.

Several authors have also raised concerns about the social impacts that flow from neo-liberal market practices. Many scholars have underlined that neo-liberalism has had vast, and often destructive, implication for humanity and human conditions. A disturbing feature of the emergence of the 'market civilisation' within the project of neo-liberal globalisation is that it produces a worldview that is "…a historical, economistic and materialistic, me-orientated, short-term, and ecologically myopic". Furthermore, there have been several studies of the social outcome of neo-liberalism concluding that neo-liberalism on a global scale has: contributed to an increase in labour flexibility but decline in work ethic, intensified poverty and class polarization worsened standards of living, contributed to rising global migration and dismantled societal and national cohesion.[17]

Some additionally claim that the neo-liberal project has unleashed financial crisis, and had devastating effects on employment and life chances in country after country. For example, for most people in the Third world (except China and East Asia), over the last twenty years, capital and resources have been drained from the poorest nations to the wealthiest, and from

[17] Levine, Rose and Renelt, David; A sensitivity analysis of cross-country growth regressions; American Economic Review, vol. 82 (4); 1992; pp. 942–63.

the many to the few; thus, inequality has grown.[18] Today, the majority of the world's population remains excluded from the neo-liberal system of consumption and economic growth, and one can question neo-liberalism as a mechanism of controlling global economy while it ignores the needs and well-being of the majority of the world's population. Neo-liberalism has had a universal tendency to increase social inequality, and concentrate power and wealth within upper elite classes of societies (as is the case in China, Russia and India).[19]

Neo-liberalism has long since proved its inabilities when facilitating collapsing economies left in depression, rising unemployment, falling incomes and extensive social suffering. It is widely recognised that overall economic performance and social development in the world economy has been substantially in decline in the last two decades.

Neo-liberal dominance has not persisted without objection. Since the early 1990's, there has been a global rise of protest movements which have contested neo-liberalism.These movements have often been visible through organised protests in relation to major meetings of institutions such as the IMF, the WTO, NAFTA and the World Bank.[20] One of the overall problems with the economic decisions made by organisations such as the World Bank and IMF, are that they are often based upon ideology and political interests, rather than facts,

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[18] Hall, Robert and Jones, Charles; Levels of economic activity across countries; American Economic Review, vol. 87 (2); 1997; pp. 173–7.

[19] Gilpin, Robert; Global Political Economy; Understanding the International Economic Order; The State and Economic Development; Princeton& Oxford; Princeton University Press; 2001; pg 305

[20] Ayres, Jeffry; Framing collective action against neoliberalism: The case of the "anti-globalization" movement. [Electronic version]; *Journal of world- system research, 10*(1); 2004; pp 11-34.

evidence, consequences and practicalities, and that there is an overall lack of transparency and public information and involvement.

Activists across the globe have highlighted harmful consequences of neo-liberal market practices: the increasing external debt of developing countries, a widening of the gap between rich and poor nations, increasing poverty in many developing areas, a decline in the average per capita income growth rate in the developing south, an increasingly unstable international economy.

Furthermore, these organised protest movements have accused neo-liberal practices for being unjust in that they generate environmental degradation, shift jobs to low wage production areas and abuse human rights. In addition to protest movements, forums challenging and presenting an alternative to neo-liberalism have been formed around the world. Some of these are the World Social Forum, The European Social Forum and the Asian Social Forum.[21]

2.5 Neo-liberalization and economic growth

The literature on trade and growth is rather casual about which of levels or changes it is referring to. The most obvious relationship is that from openness to the level of income. Simple theory predicts a positive relationship, at least if we can measure real income appropriately, although the situation becomes more complex once one allows for effects such as those on the capital, dynamic comparative advantage and agglomeration. If there is such a

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[21] Ayres, Jeffry; Framing collective action against neoliberalism: The case of the "anti-globalization" movement. [Electronic version]; *Journal of world- system research, 10*(1); 2004; pp 11-34.

relationship, taking first differences of it gives us one between trade liberalisation and the growth of income and, as noted above, this could actually be very long-lived.

More recent theory, has also explored whether openness could affect steady-state growth rates. Thus, for example, if greater competition or exposure to a larger set of ideas or technologies increased the rate of technical progress, it would permanently raise growth rates. This is an immensely attractive view of the world but one which is difficult to maintain empirically. The US growth rate, for example, has displayed no permanent changes over the period 1880–1987, one must conclude either that it cannot have been determined by factors that change substantially, such as trade policy or openness, or that changes in such factors have been just off-setting, which is not very credible. More positively ,'there is a great deal of empirical and theoretical work to suggest that the primary reason that countries grow at such different rates for decades at a time is transition dynamics'. If the growth effects of trade liberalisation are 'just' transitional dynamics, it is still worth asking how large they are likely to be. Suppose that the transition is spread over, say, twenty years, the issue is essentially what is the income gain due to liberalisation.[22]

Simple Harberger triangles from a competitive model rarely identify losses from trade restrictions larger than 2% of GDP. These are far too small to produce significant changes in growth but there are several reasons for expecting more. Recognising some rectangles, as in model of rent-seeking, considerably increases the static gains. Similarly, if we add imperfect competition to the model the consumption and production gains from trade reform will tend

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[22] Jones, Charles; Time series tests of endogenous growth models; Quarterly Journal of Economics, vol. 110 (2); 1995; pp. 495–525.

to increase.[23] For example, in CGE modelling exercises, adding in increasing returns and large group monopolistic competition often more than doubles the estimated effects of trade reform. If one assumes small group models of oligopoly – surely more appropriate to developing countries – the gains are usually larger still as rationalisation effects occur. Allowing investment and the capital stock to increase following the efficiency gains from trade liberalisation.[24]

The principal effect of trade restrictions is to reduce the supply of intermediate goods to an economy. Recognising that this can have infra-marginal effects on productivity he argues that overlooking this effect leads to a several-fold under-estimate of the production penalty of protection. Romer's effect will show up in the data as a positive relationship between trade liberalisation and productivity and one can think of further reasons why opening trade may give a one-off boost to productivity – e.g. competition stimulating technology adoption and adaptation, or the elimination of x-inefficiency.[25]

The upshot of all this is that, while eliminating Harberger triangles alone seems unlikely ever to boost transitional growth rates detectably, more sophisticated models of international trade do appear to promise gains that would be significant over two or three decades. One direct verification of this is Rutherford and Tarr who implement a 'Romeresque' model over a

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[23] Krueger, Ann; The political economy of the rent-seeking society; American Economic Review, vol. 64 (3); 1974; pp. 291–303.

[24] Harrison, Gordon et al; Quantifying the Uruguay round; Economic Journal, vol. 107 (444); 1997; pp. 1405–30.

[25] Romer, Paul; New goods, old theory and the welfare cost of trade restrictions; Journal of Development Economics, vol. 43 (1); 1994; pp. 5–38.

more-or-less infinite horizon. They find that reducing a uniform 20% tariff to 10% increases the underlying steady-state growth rate of 2% p.a. to 2.6% p.a. over first decade and 2.2% p.a. over the first five decades. Even after these fifty years the annual growth rate is 2.1% p.a.[26]

None of this modelling guarantees significant returns to trade liberalisation, but it does suggest that is worth looking for them empirically. Moreover, although Rutherford and Tarr's model contains only level effects and transitional dynamics, their very long duration suggests that it will be difficult to distinguish them from changes in steady-state growth rates empirically, especially in post-war data. Given that levels of openness reflect previous trade liberalisation (since all economies were pretty closed in 1945), it is easy to imagine empirical studies that link openness to observed growth rates even though over an infinite horizon it should have no such effect. For this reason in discussing the various results from this literature below this researcher does not make much out of whether they relate openness or liberalisation to growth, although of course in principle it is a very important distinction.

2.6 Empirical literature

Over the 1990s the conviction that trade liberalisation or openness was good for growth was fostered by some visible and well-promoted cross-country studies. These, however, received, and by and large deserved, pretty severe criticism from Rodriguez and Rodrik (2001), who argue, inter alia, that their measures of openness are flawed and their econometrics weak.

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[26] Rutherford, Thomas and Tarr, David; Trade liberalisation, product variety and growth in a small open economy: a quantitative assessment; Journal of International Economics, vol. 56 (2); 2002; pp. 247–72.

Establishing an empirical link between liberal trade and growth faces at least four difficulties. First, there is the definition of 'openness'. In the context of policy advice, it is most directly associated with a liberal trade regime (low tariffs, very few non-tariff barriers etc.) but in fact that is rarely conceptualised in empirical work. Thus, some results rely heavily on the volatility of the real exchange rate, while others combine high tariff and non-tariff measures with high black market exchange rate premia, socialism and the monopolisation of exports to identify non-open economies[27]. Some shows the trade indicators are only poorly correlated with otherindicators of openness, while show that most of Sachs and Warner's explanatory power comes from the non-trade components of their measure. Second, once one comes inside the boundary of near autarchy, measuring trade stances across countries is difficult.[28] For example, even aggregating tariffs correctly is complex whose measure depends on imports being separable from domestic goods and services and on an assumed elasticity. Then one needs to measure and aggregate quantitative restrictions and make allowances for the effectiveness and predictability of enforcement and collection. Such measurement problems are less significant for panel data measuring changes in trade policy for a single country, although even here some show that different measures point in different directions. Nonetheless, some results, based on a forty-year panel for over one hundred countries, are more convincing than those of purely cross-section studies. Vamvakidis concludes that

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[27] Sachs, Jeffrey and Warner, Andrew; Economic convergence and economic policies; Brookings Papers in Economic Activity, (1); 1995; pp. 1–95

[28] Harrison, Ann; Openness and growth: a time-series, cross-country analysis for developing countries; Journal of Development Economics, vol. 48 (2), (March); 1996; pp. 419–47.

multilateral liberalisations over the period 1950–89 were associated with increases in rates of growth, while discriminatory regional trading agreements were not.[29]

Third, causation is extremely difficult to establish. Does trade liberalisation result in, or from, economic growth? This problem is addressed by examining the effects of the component of openness that is independent of economic growth. This is the part of bilateral trade flows that is explained by the genuinely exogenous variables: population, land area, borders and distances. This component appears to explain a significant proportion of the differences in income levels and growth performance between countries, and from this the authors cautiously suggest a general relationship running from increased trade to increased growth. The problem, however, is that such geographical variables could have effects on growth in their own right and that this alone could explain the significance of the instrumental estimate of trade constructed out of them. For example, geography may influence health, endowments or institutions, any one of which could affect growth.[30] These concerns have, however, recently been answered by Frankel and Rose who repeat the instrumental variables approach of Frankel and Romer and show that the basic conclusion is robust to the inclusion of geographical and institutional variables in the growth equation. This suggests that openness does indeed play a role even after allowing for geography.[31]

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[29] Vamvakidis, Athanasios; Regional trade agreements versus broad liberalization: which path leads to faster growth? Time-series evidence'; IMF Staff Papers, vol. 46 (1), (March); 1999; pp. 42–68.

[30] Romer, Paul; New goods, old theory and the welfare cost of trade restrictions; Journal of Development Economics, vol. 43 (1); 1994; pp. 5–38

[31] Frankel, Jeffrey and Rose, Andrew; An estimate of the effect of common currencies on trade and growth; Quarterly Journal of Economics, vol. 117 (469); 2002; pp. 437–66.

Causation is a particular problem in studies that relate growth to openness measured directly – usually, these days, as (exports + imports)/GDP. Such openness could clearly be endogenous for both the export and the import share seem likely to vary with income levels. It could also be a threat even when one works with directly measured trade policy, such as average tariffs, for, at least in the short run, the pressure for protection increases as growth falters.[32]

The fourth complication is that for liberal trade policies to have a long-lived effect on growth almost certainly requires their combination with other good policies such as those that encourage investment, allow effective conflict resolution and promote human capital accumulation. Unfortunately the linear regression model, which is standard to this literature, is not well equipped to identify the necessity of variables rather than their additivity in the growth process. Hints of the importance of these policies, however, can be found in exercises identifying the structural relationships through which openness effects growth. Thus, it is found that investment is a key link and thus imply that poor investment policies could undermine the benefits of trade liberalisation.[33]

Two methodological points might usefully be made at this stage. In a fairly complex discussion of the the statistician's concept of exchangeability, it is argued that growth theory is too open to be adequately tested with the economists' traditional regression tools. There are too many potential variables and too little theory about model structure to allow classical

[32] Bohara, Alok. and Kaempfer, William; A test of tariff endogeneity in the United States; American Economic Review. vol. 81 (4); 1991; pp. 952–60.

[33] Bohara, Alok. and Kaempfer, William; A test of tariff endogeneity in the United States; American Economic Review. vol. 81 (4); 1991; pp. 952–60.

inference to work. Moreover, they argue, the usual search for robustness – the significance and consistency in sign of a particular variable across a range of specifications – is futile if the true determinants of growth are, in fact, highly correlated. Rather, it is suggested that using policy-makers' objectives to identify the trade-offs between different types of error, and from this conducting specification searches and estimation in an explicitly decision-theoretical way, recognising the wide bounds of uncertainty. This is challenging advice, which has yet to be applied to the role of trade liberalisation in growth, but it is a salutary warning about just how cautious we should be about growth econometrics.

The second general observation comes from the argument that the quest to isolate the effects of trade liberalisation on growth is misguided. Trade liberalisation has never been advanced or implemented as an isolated policy so that the only useful question is how it fares as part of a package including, say, sound macro and fiscal policies. It can be concluded that, in this context, openness is a positive force for growth. There are clearly questions as to what such packages comprise and it is not difficult to invent examples in which the benefits of other policies are mis-attributed to trade policy. Nevertheless, that liberal trade policy generally has a role within effective stabilisation and structural packages seems hard to deny completely.[34]

Despite the econometric difficulties of establishing beyond doubt from crosssections that openness enhances growth, the weight of the evidence is quite clearly in that direction. Certainly, there is no coherent body of evidence that trade restrictions generally stimulate growth. The question, then, is where else can we turn for evidence?

[34] Ayres, Jeffry; Framing collective action against neoliberalism: The case of the "anti-globalization" movement. [Electronic version]; *Journal of world- system research, 10*(1); 2004; pp 11-34.

First, there is further evidence from detailed case studies of particular countries and/or growth events. These offer a more promising approach to empirical growth research than do cross-country regressions. The economics profession has been chided for forgetting these in their enthusiasm for the latter.[35] 7 Case studies find a wide variety of causes and channels for growth, and frequently find openness at the very heart of the matter. As before, however, the case for openness in general is stronger than that for trade liberalisation alone.

2.7 Liberalism and other policies

Liberal trade policies are likely to boost income in most circumstances, because they enlarge the set of opportunities for economic agents. However, a longer term effect on growth requires combination with other good policies as well. The latter point is regurarly made by the Bretton Woods institutions in their policy advice, although Mosley (2000) argues that their attempts to prove it have not been very successful. This Section discusses several ways in which trade liberalisation and growth are linked via other policies and institutions, including the possibility that the latter are influenced by the trade stance.[36]

[35] Pritchett, Lant; Measuring outward orientation in developing countries: can it be done?; Journal of Development Economics, vol. 49 (2); 1996; pp. 307–35.

[36] Krueger, Ann ; Liberalisation attempts and consequences, liberalisation, direction of bias and economic growth; Foreign Trade Regimes and Economic Development, vol. 10; New York: National Bureau of Economic Research 1978; pp. 277–300.

2.8 Corruption

Perhaps the most important dimension is corruption, although in truth there is much we have yet to understand about it. There is a clear cross-country connection between higher rents, stemming from things such as active industrial policy or low degrees of openness, and more corruption. The latter, in turn, reduces investment and medium-term growth. Another reason for the corruption-openness link. It is argued that open countries face greater losses from corruption than less open ones. This is because corruption impinges disproportionately on foreign transactions. As a result they have greater incentives to develop better institutions. Evidence for this theory in two crosscountry relationships. First, corruption is correlated with 'natural openness' (essentially the Frankel-Romer variable, which is exogenous) but not with 'residual openness' (the difference between actual and natural openness, which is probably related to policies). Second, more open countries pay their civil servants better. This suggests that they have peg higher value on good administration (although there may be difficulties over the direction of causation here).[37]

At a concrete level, trade policy can contribute significantly to the fight against corruption. The most important aspects are the simplest: the less restrictive the trade policy, the lower are the incentives for corruption. Moreover, simpler, more transparent and non-discretionary policies reduce the scope for corruption. Thus if tariffs or other barriers exist there are important benefits if they are uniform, stable, and widely published. Uniformity over sources of imports is as important as uniformity over types of import because the origin of a good is

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[37] Alberto, Ades and Di Tella, Rafael; National champions and corruption: some unpleasant interventionist arithmetic; Economic Journal, vol. 107, (July); 1997; pp. 1023–42.

typically easier to falsify than its nature. The rules of origin that accompany preferential trading arrangements, are burdensome to the honest trader and a great opportunity for less honest ones. [38]

A classic example of success in this dimension is Chile. Chile transformed its economic performance and its public administrative standards over two decades. Chile abolished QRs and reduced tariffs from very high and dispersed rates to a virtually uniform 10% over the period 1974–9. Moreover, although the economic crisis of the early 1980s led to dramatic increases in tariffs (up to 35% in 1984), uniformity was maintained and the various steps in their de-escalation preannounced and faithfully implemented. Chile's subsequent growth performance was wholly unlike the rest of Latin America's. At a more general level, corruption in trade administration is positively associated with the variance of tariff rates across commodities.

2.9 Inflation

The other dimension of openness and policy on which we have evidence concerns inflation. It is suggested that because real depreciation is more costly in open economies, such economies will be more careful to avoid it. That in turn makes them less likely to run the risks of excessive money creation and inflation. He finds that inflation is, indeed, lower for open economies.

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[38] Romer, Paul; New goods, old theory and the welfare cost of trade restrictions; Journal of Development Economics, vol. 43 (1); 1994; pp. 5–38.

2.10 Investment Policy

Investment is a likely route through which corruption and inflation reduce growth, but it also has other determinants. These lie at the centre of the view that the Asian miracle was due to strong incentives to invest (policy or otherwise) which increased both imports of capital goods and the supply of exports. Direct export incentives, via subsidies or devaluation, could not explain Korea's or Taiwan's export booms because they did not vary much over time.[39]

It is not correct, however, to infer from this that openness did not matter. It can be noted that openness (i.e. the ability to export for reasonable returns) was the sine qua non of investment. This, they argue, is because one needs to sell the output on large markets where it will not drive prices down. Similarly, if markets for imported capital equipment had not been open, the whole process would never have got underway. Thus Rodrik's is a more nuanced view of openness and growth than many, but not a fundamentally antipathetic one.

Investment rates appear to be a robust correlate of growth. The principal route through which trade liberalisation has been effective. I is agreable that in the basic neo-classical (Solow) model growth is ultimately independent of investment even though it admits medium-term effects. Moreover, endogenous growth models and other classical models imply a direct growth bonus from investment.[40]

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[39] Dollar, David; Outward-oriented developing economies really do grow more rapidly: evidence from 95 LDCs, 1976–1985; Economic Development and Cultural Change, vol. 40 (3); 1992; pp. 523–44.

[40] Solow, Robert.; Applying growth theory across countries; The World Bank Economic Review, vol. 15 (2); 2001; pp. 283–8.

The strength of the investment-growth link suggests the need to ensure that investment is both attractive and feasible if trade-induced growth is to occur. Thus issues such as property rights, peace and financial depth are likely to be necessary conditions for success. That warring economies do poorly is incontrovertible. The development of domestic institutions ensure honest and effective financial intermediation as a high priority.

2.11 Neo Marxist policies and economic growth

Regular statistics from the World Bank and the United Nations, paint an alarming catalogue of human misery, degradation, and death. That is the reality of capitalism in the developing world. Ironically, it is the very policies of institutions, such as the World Bank and the International Monetary Fund, that are forcing whole countries to adopt the bankrupt and corrupt policies of privatization and the opening up of markets to the plunder of the multi-national companies that is making the situation worse. For the developing world, the 1990s indicates the lost decade of development as the policies that were adopted by some developing countries on the advice of the World Bank and International Monetary Fund exacerbated poverty. We argue that the working class, and by extension the masses internationally, have lost the entire 20th Century and the beginning of the 21st century because of the absolute failure of capitalism to advance the mass of humanity by refusing outright to entertain predominantly home grown policies that are sustainably, and, deliberately pro-poor.

The struggle against the neo-liberal policies being peddled, championed and internationalized by the West or developed world represents a situation that confirms third world fears, that globalization is just corporatization and colonization combined. This fits well with the observation that possessive market society necessarily puts wage-earners those without a substantial amount of capital in a position of dependency.

Capitalism, according to the Marxist-Leninist theory, creates all the problems being faced globally. It gives a rise to war to further its own ends. The conflicts in Afghanistan, Iraq and the former Yugoslavia, just to mention a few examples, bear witness to the hidden agenda to use ideological justification in “disciplining” the so-called rogue states that oppose the neoliberal agenda, and thereby ultimately ensure access to oil in the Gulf and the Middle Eastern states. The move to control the oppressed state is imperialism and this is done through the creation of monopolies and financial capital spread across the world in search of new markets and resources. This task is being well served by the Bretton Woods Institutions and the World Trade Organisation.[41]

Capitalism promotes the primacy of markets as the drivers of the economy, further detesting government intervention in the running of the economy save for a very narrowly limited, regulatory role. Competition is touted as a minimum requirement but without necessarily appreciating that the poor and dispossessed masses have no decent chance of competing with big capital. Indeed, at first sight some of the features of capitalism might seem to indicate progress, with supporters of capitalism-led globalisation adamant that it will eventually lead to better conditions for poorer countries. Resultantly, misleading adages like ‘Only winners, no losers’ continue to gain currency. Yet, in fact, the real object is to promote freedom for international (mainly USA) big business – via the World Trade Organization (WTO), the

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[41] Mc Carthy, Pat; “Neo-Marxism.” H. James Birx(ed.); *Encyclopedia of Anthropology.* Volume 4; Thousand Oaks; Carlifornia; Sage Reference; 2006; Page 1546.

International Monetary Fund (IMF) and the World Bank (WB) – to do as it likes around the world.

The history of what is now generally termed the Third World, which is also called variously, but chiefly as the ‘developing world’ is predominantly a history of slavery, colonisation, dispossession and annihilation at the hands of the imperial North. At the very same time, these societies, especially in Africa, had been traditionally organised along communal, redistributive and centralised modes of production. This form of organisation was thoroughly compromised, and potentially, effectively ended upon the painful interaction with the imperialist societies from around the 15th Century with far reaching implications for sustainable development. Not only were powerful, supranational and international organisations created along the course of this sad history but a host of other systems and structures have come into place that virtually make it impossible for the poor countries to influence their own domestic affairs significantly enough.

The Marxist theory of international relations comes in handy in attempts to explain contemporary international relations in many ways. The international division of labour that defines the core (North)-periphery (South) relations is definitely not in the interests of the poor societies and runs opposite any spirited efforts at sustainable development. When one looks at the profit motive within the context of environmental exploitation and the whole climate change debacle for example, especially as it relates to its debilitating effects on poor farmers of the South, it is hardly conceivable that poor societies have begun the 21st Century on a promising footing. Yet the most worrying aspect of all is the continued, relentless push for market-led development on Third World, including, African governments. Whereas such approaches work so well in affluent Western societies due to the sheer strength of their functional economies, expecting the same models to work anywhere else, especially in

African societies where relevant, prerequisite structures and institutions are either weak or non-existent, is only working to confuse the development agenda. Capitalism thrives on inequality, between and within societies.

Marxism, as a theory, rests on the bedrock of advocating for a strong state and centralised economic planning. This would theoretically make it possible to deliberately influence resource control, mobilisation and distribution to ensure nonexploitation of the weak by the strong. However, an undeniable outcome of the last few decades has been the declining authority of states, with far reaching implications for sustainable development in the developing world. Gradually, capital is determining not only policy, but the rate of resource exploitation and of course distribution of wealth.

The activities of Trans National Companies (TNCs), for example, bring out this clearly. Such agents of big business have entrenched interests in economics, politics, sociology and international relations. Besides the accelerating pace of technological change, there has been an escalation in the capital cost of most technological innovations. The escalation in the capital cost has been rampant in agriculture, in manufacturing and the provision of services, and in new products and in new processes. The implications have been dire for poor societies dependent on sophisticated Western technology. It turns out that technology transfer as a development approach has since not been embraced by the West and there is no deliberate attempt to capacitate poor societies to launch their own technological revolution. Poor societies have to give up so much to get technology from the technological North. That is not sustainable in the medium to long-term and will certainly erode ability to independently escape poverty. The declining of the state is very useful in the Marxist theory of explaining international relations.[42]

There are debates with the neo-liberal perspective particularly on the universality of its neo-classical economic assumption that investors have perfect knowledge of future events. Keynesian economists argue that investors' state of knowledge is not sufficient to estimate the future events with quantitative precision. This is to say there is no basis on which to gauge the risks they face in making an investment. Investors are plunging into the unknown. Therefore, they face irreducible uncertainty, not scarcity of resources in making their decision to undertake an investment. They cannot rely on the market mechanism where prices and quantities adjust automatically and by pure chance tend to balance in the long run to guide their current investment decisions.[43]

Keynesian economists are persuaded that the free market mechanism as a guide to investment is impractical. Therefore, they assign the government the role of reducing the amount of uncertainty through polices aimed at making the investment environment more predictable. The policy implication of Keynesian economists is that the government should manage the economy.

Certainly, it is extremely difficult to find historical examples of international economic transactions with markets that function as most neo-classical economists assume they do. As

[42]Mc Carthy, Pat; "Neo-Marxism." H. James Birx(ed.); *Encyclopedia of Anthropology*. Volume 4; Thousand Oaks; Carlifornia; Sage Reference; 2006; Page 1546.

[43] Vamvakidis, Athanasios; Regional trade agreements versus broad liberalization: which path leads to faster growth? Time-series evidence'; IMF Staff Papers, vol. 46 (1), (March); 1999; pp. 42–68.

a result the neo-liberal perspective is accused of relying more on economic arguments that ignore the political influence of governments on the outcome of the market mechanism. That is, the state is a powerful actor in the economy and attempts to manipulate the market mechanism to advance its interest particularly through policy.[44]

2.12 Theoretical framework

2.13 Key theories related to the study

2.13.1 Neoliberalism

Neoliberalism is a set of social economic policies driven by capitalism. It is built upon the principle of individual rights. This principle leads to a free market. In this economic system, capital assets are owned privately. Additionally, the main driving force for the production of goods and services is profit. The prices of goods and services are determined by the parties to a transaction. The elements of capitalism entail the process of capital accumulation, wage labor and competitive markets. Adam Smith in the 18th century made the liberalist economic school of thought famous in Europe. In his book The Wealth of Nations, he together with others advocated the abolition of the intervention of government in economic matters.

2.13.2 Neo Marxism

Neo Marxism is based in the ideas which were first put forward by Karl Max. It is a social theory that tries to amend the ideas of Karl Marx. This it does by incorporating elements drawn from other intellectual traditions like critical theory by Erik Olin Wright and Weberian

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[44]Niggle, Christopher; Globalization, Neoliberalism and the attack on social security; [Electronic version]; *Review of social economy, 61*(1); 2003; pp 51-71

theory by Marx Weber. Marx held that economic power is a prerequisite to political power. Neo Marxists believe that the resulting economic system results in a wealthy class of owners and a very poor class of workers. Moreover, the Neo Marxists believe that some social institutions like prisons and schools have been put in place in order to create a divide between the powerless and the powerful.

2.14 Neo Marxist policies and economic growth

Marxism, as a theory, rests on the bedrock of advocating for a strong state and centralised economic planning. This would theoretically make it possible to deliberately influence resource control, mobilisation and distribution to ensure nonexploitation of the weak by the strong. However, an undeniable outcome of the last few decades has been the declining authority of states, with far reaching implications for sustainable development in the developing world. Gradually, capital is determining not only policy, but the rate of resource exploitation and of course distribution of wealth. The activities of Trans National Companies (TNCs), for example, bring out this clearly. Such agents of big business have entrenched interests in economics, politics, sociology and international relations. Besides the accelerating pace of technological change, there has been an escalation in the capital cost of most technological innovations – in agriculture, in manufacturing and the provision of services, and in new products and in new processes. The implications have been dire for poor societies dependent on sophisticated Western technology. The declining of the state is very useful in the Marxist theory of explaining international relations.

Capitalism, according to the Marxist-Leninist theory, creates all the problems being faced globally. It gives a rise to war to further its own ends. The conflict in Afghanistan, Iraq and the former Yugoslavia, just to mention a few examples, bears witness to the hidden agenda to use ideological justification in “disciplining” the so-called rogue state that oppose the neoliberal agenda, and thereby ultimately ensure access to oil in the Gulf and the Middle Eastern states. The move to control the oppressed state is imperialism and this is done through the creation of monopolies and financial capital spread across the world in search of new markets and resources.This task is being well served by the Bretton Woods Institutions and the World Trade Organisation.[45]

The history of what is now generally termed the Third world, which is also called variously, but chiefly as the ‘developing world’ is predominantly a history of slavery, colonisation, dispossession and annihilation at the hands of the imperial North. At the very same time, these societies, especially in Africa, had been traditionally organised along communal, redistributive and centssralised modes of production. This form of organisation was thoroughly compromised, and potentially, effectively ended upon the painful interaction with the imperialist societies from around the 15th Century with far reaching implications for sustainable development. Not only were powerful, supranational and international organisations created along the course of this sad history but a host of other systems and structures have come into place that virtually make it impossible for the poor countries to influence their own domestic affairs significantly enough.

The Marxist theory of international relations comes in handy in attempts to explain contemporary international relations in many ways. The international division of labour that defines the core (North)-periphery (South) relations is definitely not in the interests of the

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[45] Wacziarg, Romain.; Measuring the dynamic gains from trade; World Bank Economic Review, vol. 15 (3); 2001; pp. 393–429.

poor societies and runs opposite any spirited efforts at sustainable development. When one looks at the profit motive within the context of environmental exploitation and the whole climate change debacle for example, especially as it relates to its debilitating effects on poor farmers of the South, it is hardly conceivable that poor societies have begun the 21st Century on a promising footing. Yet the most worrying aspect of all is the continued, relentless push for market-led development on third world, including, African governments. Whereas such approaches work so well in affluent Western societies due to the sheer strength of their functional economies, expecting the same models to work anywhere else, especially in African societies where relevant, prerequisite structures and institutions are either weak or non-existent at all, is only working to confuse the development agenda. Capitalism thrives on inequality, between and within societies.

CHAPTER THREE

3.0 Methodology

3.1 Introduction

The purpose of this study was to reexamine Kenya's economic and social trends. The study uses data from the World Development Indicators, Global Development Finance, works of Roberts and Fagemas and the IMF World Economic Outlook. It entails the research design, the population, the methods of data collection and data analysis.

3.2 Research Design

The study employed a literature based research design, a scientific tool which can be used to summarise, appraise and communicate the results and implications of otherwise unmanageable quantities of research. This research design is good for small studies whose data may lack statistical power to show significant effect. This reason suits the circumstances behind this study. Compilation of data from various economies could provide sufficient data to show significant effect. On the contrary, one economy (Kenya) would not provide sufficient data to hold statistical power to show significant effect.

3.3 Data collection

The study relied on secondary sources such as the literature on Kenyan Economic Growth and Foreign Economic Policy found in the libraries of the Treasury, Ministry of Finance, Ministry of Foreign Affairs and online resources. It also included dissertations assessing Kenya's economic development.

3.4 Data reliability and Validity

The validity of the data used in this research is upheld by extracting data only from internationally accredited bodies.

3.5 Data management and Analysis

Data extraction was done by combining the following: developing a neo-Marxist critique framework and identifying information to be extracted. This enabled a schematic presentation of the findings.

Data appraising involved: aappraising how the authors have arrived at their findings, themes and conclusions; background of the authors; have they been true to their chosen methodology? theoretical frameworks; epistemological orientation; findings and relationship to the research question and contribution to existing evidence.

The last phase of data synthesis examined the findings in the following contexts: disciplinary context, professional education and professional culturation. This phase is aimed at finding out if the contexts have shaped the essence of the research findings and the contribution to evidence.

Findings have been organized in themes and address how the main researchers arrived at their themes. The researcher expects to find trusted results and check to find out if the research questions have been answered.

3.5.1 Data Appraising

It is hypothesised that withdrawal of state controls affected economic and social growth patterns in Kenya. Results have been offered to test this hypothesis. The hypothesis for each of these areas is listed below.

Economic growth (GDP)

1. The economic growth of Kenya has been stunted since the 1980s when state controls were removed.

Social Growth

1. There has been a considerable increase in the number of poor people in Kenya since from the 1980s. The gap between the poor and the rich has also widened considerable over the same period.

An analysis of secondary data

Table 1 Macroeconomic Indicators between 1970 and 2000

Macroeconomic indicators, 1970-2000(Annual averages)

	1970-1979	1980-1989	1990-200
Real GDP(millions of US $)	4,075	6,551	9,091
Budget Balance	-4.6	-5.6	-2.3
Current revenue excl.grants	18.4	21.0	24.4
Current account balance	5.9	-4.9	-2.3
Trade***	63.2	53.7	64.0
External public and publicly guaranteed debt gross	21.4	41.0	62.6
Gross fixed capital formation	21.4	15.9	15.9
Inflation(Percent)	10.9	11.8	16.8
Exchange rate(Ksh/US$)	7.5	14.2	51.9

Note: Long-term external debt is debt with an original or extended maturity of more than one year and is owed to non-residents and is repayable in foreign currency, goods, or services.

** Unless otherwise stated.

***Trade is this sum of exports and imports divided by GDP.

Source: World Development Indicators, 2004 and Global Development Finance, 2004.

Macroeconomic indicators

Macroeconomic indicators include all the statistics which show the status of the economy. They are released periodically by the government and other private agencies. In this section we examine the trends in the microeconomic indicators between 1970 and 2000 as shown in table 1.

Real GDP

Real gross domestic product is an inflation-adjusted measure which reflects the value of all goods and services produced in a particular year. The values in table 1 show the average GDP per decade over three decades. As it can be seen from the statistics, the real GDP has risen over the three decades with almost the same margin in every preceding decade.

Budget Balance

A budget balance is a budget in which the expenses do not exceed the revenues collected. From the statistics in table 3, it is clear that Kenya’s budget balance was in the negative throughout the three decades. This shows that the country was spending much more than it could generate in revenue. The worst period was between 1980 and 1989. This is an indication of a dwindling economic growth over these decades.

Current revenue excluding grants

Current revenue is the revenue that the government receives from tax during a specific period. The table 3 shows that this revenue has risen but not with considerable margins.

Current account balance

The current account balance is defined as the sum of net exports of goods and services, net primary income and net primary income. From table 3, it is only during the period between 1970 and 1979 when Kenya had a positive current account balance value.

External public and publicly guaranteed debt gross

The Kenyan debt gross arose considerably from 21.4 to 62.6 within three decades. This shows that Kenyans had more debt to pay by the year 2000 than they ever had.

Gross fixed capital formation

The three decades saw a fall of the gross fixed capital formation from 21.4, to 15.9 where it stagnated in the two decades that followed the period between 1970 and 1979.

Inflation

The general rise in the level of prices of goods and services in Kenya over the three decades has been on a constant rise as shown in Table 3. This is an indication of an ailing economy.

Exchange Rate

It can be seen from table 3 that the Kenyan currency has weakened tremendously over the period between 1980 and 2000. This may be attributed to the fact the volume of imports is higher than that of exports.

Table 2 Decomposition of GDP Growth between 1960 and 2000

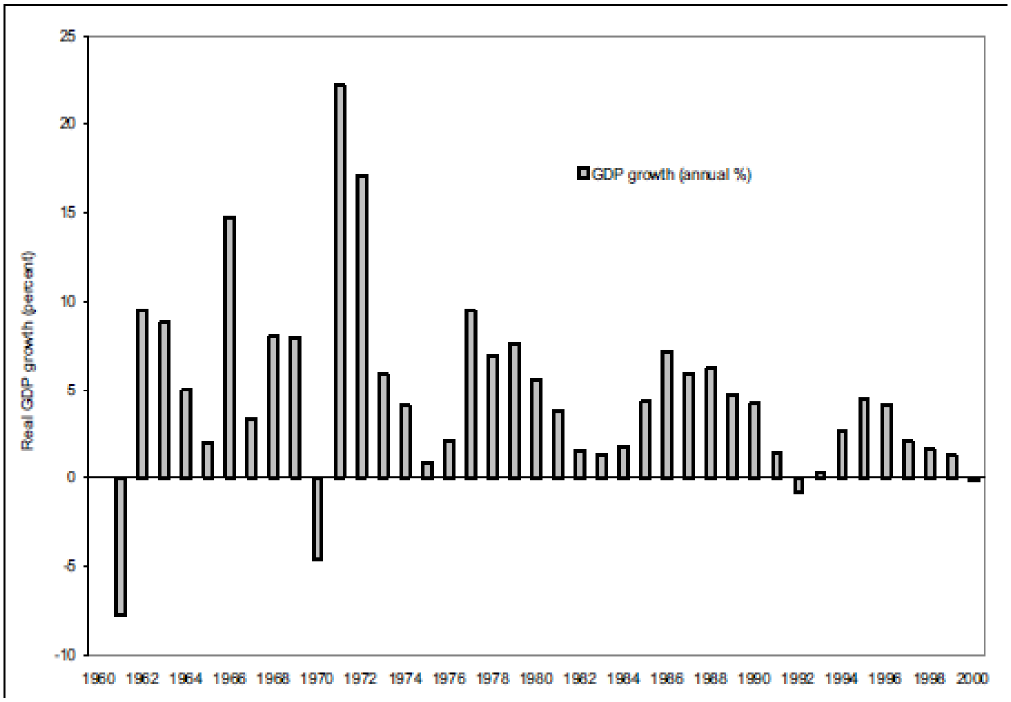
Decomposition of GDP growth, 1996-2000(Percent)

	GDP	Physical capital	Labor	Human capital	Total factor productivity
1960-2000	4.9	1.1	1.1	2.1	0.5
1960-1979	6.7	1.9	1.0	2.2	1.7
1980-2000	3.1	0.5	1.1	1.7	-0.2
1990-2000	2.0	0.5	1.0	1.8	-1.3

Source: Roberts and Fagemas, 2004, Table 8.1

From table 2, it can be seen that the gross domestic product thrived most in the period between 1960 and 1979. During this period, the GDP growth reached an all time high of 6.7 with a corresponding total productivity factor of 1.7.The GDP on the other hand experienced the slowest growth between the 1990 and 2000. During this period, the average GDP was 2.0 with a corresponding total factor productivity of -1.3.

Figure 1 Real GDP growth, 1970-2000 (Percent)



Source: World Development Indicators, 2004

The real GDP growth in Kenya according to figure 1 started from negative figure in 1960. It quickly rose a record 15% before in 1966 before coming down to a negative 5% in 1970. Surprisingly, the real GDP growth rose from the negative figure to its all time high of 23% in 1972. It continued to grow with minimum fluctuations till 1980 when it began to experience a general down ward trend. The period between 1990 and 2000 registered some of the lowest growth in real GDP (See figure 1).

Table 3 GDP and Per Capita in Kenya, 2000-2004

GDP AND GDP PER CAPITA IN KENYA, 2000-2004 (Percent, annual)		
	Real GDP per Capita	Real GDP growth
2000	-2.3	-0.1
2001	-0.1	1.2
2002	-0.8	1.1
2003	-0.3	1.5
2004	0.9	2.6

Source: IMF World Economic Outlook Database, April 2004

GDP and Per Capita in Kenya, 2000-2004

In the years between 2000 and 2004, Kenya saw a slight in improvement in its economic growth. The real GDP per capita improved from -2.3 in 2000 to 0.9 in 2004 (See table 3). The real GDP growth also improved from -0.1 to 2 in 2004.

Table 4 Social Trends in Kenya, 1980-2000

	1980	1990	2000
Population			
Total Population(millions)	17	23	30
Rural Population (percent of total)	84	76	67
Income			
GDP per capita (real, US$)	337	358	328
Population below the national poverty line in 1990 and 2001 (percent)	n/a	48	55
Income share accruing to poorest 20 percent of population in 1997 (percent)	n/a	n/a	6
Income share accruing to richest 20 percent of population in 1997 (percent)	n/a	n/a	51
Health			
Life expectancy at birth (years)	55	57	47
HIV/AIDS prevalence (percent of total population)	n/a	5	14
Infant mortality (per 1,000 live births)	73	63	77
Child mortality under-5 (per 1,000 live births)	115	97	120

Source: WDI, 2004.

Social Trends in Kenya, 1980-2000

The social trends which have been focused on in this study include population growth, the income (GDP growth), poverty trends, health; life expectancy, HIV/AIDS prevalence, infant mortality, child mortality (see Table 3).

Population growth

The population of Kenya almost doubled between the year 1980 and 2000. The rural population has been on the downward trend. In 2000, there was only 67% of the total population of Kenya that was living in the rural areas.

Income

Despite the tremendous increase in the population of the country, the real GDP per capita has not seen much improvement. The real GDP averaged a paltry $328 in 2000 compared to the $337 that it experienced in 1980 when it had a smaller population. In 1980, no Kenyan was living below the poverty line. The trend changed in the two decades that followed. By the year 2000, a 55% of the Kenyan population was living below the poverty level. Moreover, the gap between the rich and the poor reached the peak in 2000. As at this year, the poorest 20% of the population owned just 6% of the income. On the other hand, the richest 20% owned 50% of the income.

Health

The life expectancy in 1980 was 55 years. It improved to 57 years before coming down to 47% by the year 2000. In the same period, the aids prevalence increased tremendously and by the year 2000, 14% of the total population was infected. Both child mortality and infant mortality reduced in the period between 1980 and 1990. However, by the year 2000, they had risen considerably.

Kenya on gaining independence in 1963 soon became the most successfully economically. It was also the most stable, politically, in the whole of East Africa. However, in the decades that followed Kenya’s independence, its economic performance has been dismal. Consequently, poverty has increased. The reasons for this underperformance, as demonstrated by the data, is attributed to slow and incomplete economic reforms, poor governance, poor delivery of public service, corruption, inadequate investment in infrastructure as well as a very incompetent judiciary.

Data Analysis

The mean Kenyan real GDP between 1970 and 2000 was 4.6% per year. The real per capita income on the other hand grew by a mean of 1.3% yearly. The figures given here however, shield the uneven rate of expansion of the Kenyan economy over the period between 1970 and 2000(See Figure 1 & Table 1).

The period immediately after the independence saw the Kenyan economy grow by an average of 7.8% annually. This went on up to the mid 1970s. The growth is attributed to largely the rapidly expanding agricultural sector, the fiscal policies and the import substitution industrialization which the government adopted. In this period, the Kenyan government did pursue a monetary policy which kept inflation low. The policy also reduced the reliance of the government on aid from foreign countries. The fiscal policies ensured that the budget deficits were kept at manageable levels. The import substitution industrialization brought about industrial diversification and growth. This it achieved by offering protection to domestic firms from international competition. The government employed many instruments in its pursuit of the import substitution policy. These include import tariffs, foreign exchange controls, and quantitative restrictions as well as import licensing.

Towards the close of the 1970s, the performance of the Kenyan economy began to nose dive. This was because of the collapse of the east African community, the oil shock of 1977, the erosion of the fiscal policies as well as the anti-export bias of the import substitution policy.

During the 1980s, the economy was expanding at a slower rate. The GDP grew at an average rate of 4.3 percent annually. Per capita GDP on the other hand expanded at a paltry 0.5% yearly. In 1980, Kenya adopted the Structural Adjustment Program under the guidance of the World Bank and the IMF. Reforms were made which aimed at improving the market incentives as well as the allocation of resources and microeconomic stabilization. The reforms include liberalization of the foreign exchange market as well as the privatization of some parastatals. The domestic price controls were also lifted. More export promotion programs were also instituted.

From 1990, poor economic management led to slow economic growth in the years that followed. The GDP of Kenya grew at 1.7%.This is a far cry from the GDP growth of its neighbours, Tanzania and Uganda, which experienced GDP growth of 3.0% and 6.7% respectively, over the same period. The population growth was at 2.5% per annum during this period. It led to the shrinking of the real per capita GDP at a yearly rate of 0.9 percent. This led to the increase in the number of people living in poverty.

The Kenya’s disappointing economic performance between 1980 and 2000 can be attributed to the change in the economic policies, which introduced liberalism, poor economic management reflected in the high cost of transacting business, low domestic investment as well as sub standard provision of public services.

Kenya's economic performance between 2000 and 2004 stood at a paltry 1.6% annually. This has been attributed to the many factors. These factors include, poor economic management, fluctuating international prices of commodities, corruption, continued reliance on unreliable donors as well as poor infrastructure. Poverty increased considerably during this period since the per capita income shrunk to 2.3% (See Table 2)

In 2004, the per capita income expanded with a positive figure of 0.9% for the first time since 1996. The year's economic growth which averaged at 2.4 percent was mainly driven by agriculture.

Most of Kenyan GDP growth between 1960 and 2000 must have derived from factor accumulation. Human capital as well as physical accumulation seems to have made positive contributions (See table 3). In the period after 1980, the negative total factor productivity is a suggestion of wasteful human capital accumulation. The other factors which must have contributed to this include corruption, weak institutions as well as poor governance.

Social Impact of the Kenyan Economic Growth

The poor economic management from the 1980s has led to ever increasing poverty levels in Kenya (See Table 4). There is a small percentage of the country's population who enjoy the benefits of the economy at the expense of the poor majority. Before 1980s, there were an insignificant number of people living below poverty. However, from the beginning of the 1980s, the percentage of poor people has risen considerably. In the year 2000, 55% of the population was living below the poverty level. Half the country's wealth was in the hands of 20% of the population. The life expectancy has also reduced considerable from over 50 to 47 years in 2000.

Conclusion

These data economic and social trends have given us a glimpse of what has happened in the Kenyan economy. It is evident from the statistics that both the economic growth and the social growth in Kenya have been ailing. It is therefore imperative to critically analyse and discuss this data and it in details in chapter that follows. This will help us to prove the hypothesis that economic growth and social growth in

CHAPTER FOUR

4.0 Discussions and conclusion

4.1 Introduction

In this, the study will entailed a closer look at the findings from chapter three.

4.2 Summary of Key findings

There are five key findings from the study which are worth discussing:

Firstly, Kenya's economic (GDP) growth was vibrant in the years between 1960 and 1979 with an average GDP per annum of 6.7.

Secondly, Kenya's economic growth (GDP) collapsed in early 1980s and has experienced fluctuations ever since.

Additionally, the economic growth rate during the period after independence upto the year around 1980 was at per population growth rate. For this reason, the poverty levels were very low.

Moreover, the economic growth rate during the period after 1980 lagged behind population growth rate. For this reason, the poverty levels have increased tremendously.

And lastly, there was a change in fiscal policies in the periods between 1960 and 1979, and the period between 1980 onwards. This is blamed on the change in the fortunes of the Kenyan economy.

4.3 Discussion

4.3.1 The vibrant Kenya's economic (GDP) growth between 1960 and 1979

The GDP growth during this period was very vibrant. Kenya achieved an all time high of 7.8% in the year 1972. The average GDP growth during this time was 6.7%.

There are many reasons which can be attributed to this growth. Firstly, in this period there was a rapidly expanding agricultural sector. The government also put in place fiscal policies which favoured the country's economic growth. There was also the well known import substitution industrialisation which spurred this growth.

Rapidly expanding agricultural sector

Agriculture has been the backbone of the Kenya's economy. It was indeed the foundation of the country's economy providing two-thirds of the GDP. It also gave livelihood to more than 60% of the country's population. At independence, the country's large scale farming, which entailed the production of crops for export, was mostly left in the hands of the white settlers. However, through land reform programs, the government assisted the peasant farmers in forming cooperatives. These cooperatives qualified for low interest loans. As a result, these farmers as a cooperative were able to buy land. This land would then be subdivided to the farmers. This encouraged farming and the agricultural production rose to an all time high. At this time, coffee and tea were the leading foreign currency earners. Coffee alone earned the country hundreds of millions of dollars annually. Tea was the second highest earner in the agricultural sector. It gave the country millions of dollars in foreign exchange. Apart from tea and coffee, there were other crops like maize and wheat which were also doing well in these days.

Fiscal policies

Fiscal policy is the use of the government spending and revenue to influence the economy. During this period, the government had a very tight spending policy which discouraged overspending. The government only spent money that was equivalent to its revenue. This prevented situations where budget deficits would arise. As a result of this, the economic growth blossomed.

Import substitution industrialisation

This entailed the setting up of industries to produce items which were being imported but could also be produced locally. During this period, Kenya quickly developed a number of industries providing consumer goods like beverages, textiles, food products, petroleum products, electrical appliances, machinery, printing paper products, sugar and confectionary. These industries contributed immensely to the growth of GDP. Apart from opening many jobs opportunities, they earned the country foreign exchange on exports. They also reduced the reliance of Kenya on foreign companies to supply it with these essential commodities.

4.3.2 The poor Kenya's economic (GDP) growth between 1980 –present times

Kenya has experienced poor economic growth in from the early 1980s to due to a combination of factors. These factors include the collapse of the East African community, the oil shock of 1977, the erosion of the fiscal policies as well as the anti export bias of the import substitution policy. There was also the adoption of the SAPs, liberalisation of the foreign exchange market, privatisation of parastatals, lifting of domestic price controls as well as the institution of more export promotion programs. The other factors which led to the poor economic growth included fluctuating international prices of commodities, corruption, reliance on unreliable donors and poor infrastructure.

The collapse of the East African community

The permanent tripartite commission for east African co-operation formed in 1967 collapsed in 1977 as a result of political differences. The Kenyan economy being the biggest in this cooperation had benefited greatly because of the expanded market. This market when cut off, reduced the revenue from trade and lead to the shrinking of the Kenyan economy. This is because; Kenya could no longer achieve the volume of trade on its goods that it had previously enjoyed.

The oil shock of 1977

In the 1970s there were economic wars between the Arab Countries and the USA. The Arab countries which mostly control the oil industry decided to place restrictions on the exportation of oil. They also increased the price of oil. This affected the Kenyan economic growth because it mainly relied on petroleum products to drive its industries. The resulting commodity prices became prohibitive to the buyers and most of the companies suffered loss. The cost of production increased and this brought down the profit margins of most of the companies.

The erosion of the fiscal policies

The government initially instituted fiscal policies which regulated the spending and the revenue. In the guidelines of these policies, the government could not spend more than it could generate. However, the government changed its fiscal policies and began to spend more than it could generate in terms of revenue. This resulted in to deficits which called for borrowing. This resulted to the creation of the public debt which has been on the increase ever since.

The anti export bias of the import substitution policy

The import substitution policy was meant to produce goods locally so as to reduce the amount of money spent on imports. However, over time, the government began adopting an anti export bias of the import substitution policy. In this regard, the government began importing things like second hand clothes among other items. These being relatively cheaper than the locally produced ones were preferred by the local consumers. The local industries could no longer compete with the imported items. This saw the collapse of many industries which had been set up by the government. Consequently, many Kenyans became jobless.

The adoption of the SAPs

During the 1980s, stabilization and adjustment packages were introduced in many developing countries in an attempt to stop further deterioration in standards of living. A range of macro-economic and structural measures, referred to as Structural Adjustment Programs (SAPs) were introduced in the first instance by the Bretton Woods institutions - the World Bank and the International Monetary Fund (IMF) - to restore internal balances and increase the role of market forces in the economy. These adjustment policies included various mechanisms designed to reduce imbalances in Third world economies, both on external accounts and in domestic resource use. The SAPs involved cutbacks in government expenditure. Consequently, real government expenditure per capita fell in over half the countries of the developing world in the period 1980-1984. The impact of adjustment measures on local economic conditions varied widely as did the degree and consistency of their implementation. In sub-Saharan Africa, SAPs were implemented in only a handful of countries during the late 1970s, but by the end of the 1980s, most countries were formally involved.

Liberalisation of the foreign exchange market

During this period of economic meltdown, Kenya liberalised its foreign exchange market. The government controls which had been put in place to protect the Kenyan economy were removed. In their place were instituted liberalized policies which gave advantage to foreign companies to exploit the economy of Kenya. The countries of origin of these companies benefitted at the expense of Kenya.

Privatisation of parastatals

There has been a wave of privatisation of government parastatals like Kenya Railways, Kenya Airways. These were sold to private companies, with the country holding a small share in the resulting companies. Some, like Kenya airways have registered considerable growth while others like Kenya Railways was not able to take off even after its privatisation. This has lead to the wastage and mismanagement of assets which has also impacted badly on the economy over time.

Lifting of domestic price controls

Initially, the government had placed price controls on goods and services. When these were lifted, many people, who had the means of trading embarked on exploiting the common people. This in turn led to the unfair trading which has been injurious to the economy.

Export promotion programs

The government removed some of the export promotion programs that it put in place to facilitate the exportation. As a result, the volume of export reduced over time and this led to the shrinking of the growth of the economy.

Fluctuating international prices of commodities

Prices of coffee and tea in the 1980s affected the economic growth of Kenya since these were the man exports of Kenya. The amount of foreign exchange that the agricultural sector was contributing to the economy was affected very much because of these fluctuations. The agricultural sector has been the backbone of the Kenyan economy.

Corruption

Kenya has lost billions of dollars in fraudulent deals. The most infamous one involved the Goldenberg Scandal which almost sank the economy of the country in the 1990s. The other major scandal was the Anglo-leasing scandal. There have reports showing that Kenya is very corrupt. Bribery, extortion and bureaucracies have kept many people from engaging in activities which could otherwise be beneficial for the growth of economy. The other forms of corruption include intellectual property theft where people’s ideas are stolen by the well established companies. This has discouraged many people over this period of time from investing.

Reliance on unreliable donor

Overreliance on donor funds caused a lot of harm on the Kenyan economy. The donors who have many restrictions and stringent rules have disappointed the country in many instances. Some commit to donate money and then fail to owner their commitments. This leaves the government with deficits. These deficits call for the search of donor funds. The donor funds have really increased the public debt of Kenya. With such conditions, the economic growth suffers inconsistencies.

Poor infrastructure

The poor transport and communication network in the country over the period between 1980 and 2000 caused a lot of waste in terms of time. Many perishable goods were wasted. The country relies mostly on agriculture for its growth. The agricultural produce needs storage facilities. There have been wastage resulting from poor storage of these produce especially when there is surplus.

4.4 Social trends in the period between 1960 and 1979

During this period, the population growth rate was at par with the economic expansion. As a result, there were insignificant cases of poverty. There was no noticeable gap between the rich and the poor. Moreover, HIV/AIDS was not there yet. For this reason, people enjoyed their life. The child and infant mortality rates on the other hand were slightly high.

4.5 Social trends in the period between 1960 and 1979

During this period which heralds the beginning of the Kenya's economic stagnation, the society began experiencing many societal challenges. The period marked the entrance of HIV/AIDS which has really affected the population demography of the country since then. The poverty levels increased considerably with the gap between the rich and the poor continuing to widen. The people living below the poverty level in Kenya is more than 50%

4.6 Effects of Neo Liberalism

Neo Liberalism is an idea of capitalism. It has been forwarded by the elite due to the shrinking fortunes of capitalism in the last 25 years. Its main points include the rule of the market. This entails the liberation of the private enterprises from the restrictions imposed by the government regardless of the social damage that such a measure can cause. There is also greater openness to investment and international trade. Moreover, the workers' wages are reduced by tampering with their unions and consequently eliminating their rights.

Neo liberalism also involves cutting down nonpublic expenditure used for social services like health and education. This makes the poor very vulnerable. Deregulation is another aspect of neo liberalism. In this regard, the government's regulations that can diminish profits are reduced. These include those that protect the environment and the workers safety. The other key pillar of Neo Liberalism is privatization. In this regard, state owned enterprises, good as well as services are sold to private investors. These include schools, electricity, railroads etc. Moreover, Neo liberalism removes the concept of community. It replaces this by individual responsibility. In this way, the poorest people in the society are expected to find solutions for their problems. The problems include lack of health care, education as well as social security.

The neo Marxist economy has, in a very creative way, developed Marx's theoretical system, in contemporary conditions, by testing its validity in a critical assessment of the challenges of modern capitalist economy in Kenya. The backbone of this neo Marxist approach is the conceptualization of the problems of modern capitalism through the dynamics at the different socio economic system of the third world in general and Kenya in particular. The outcome is a distinctive conceptual apparatus that relies on categories like exploitation, inequality, dependent development, centre-periphery types of relations among others. The main cause of instability of the capitalist system in Kenya currently is the domination of the neo liberalized ideology in the last 30years. The neo liberal policy has generated income in favour of the recipients of profits at the expense of wage stagnation, compounded with stiff competition in the global economy, the growing imbalance of demand and supply, chronic overcapacity and the development of greedy and risk prone sector. The expansion of this system has been maintained through the explosion of household debt, which has been fed by the growing speculative bubbles and the policy of low interest rates. The economic growth in the neo liberal Kenya has largely depended on these speculative movements. Due to the fact that it is impossible to continue with this type of development, the Kenyan economy built in the neo liberal model has reached its crisis.

4.7 Conclusion

The economic and social growth of Kenya was on a steady rise in the years between 1967 and the year 1980. However after this, both the economic and social growth began to suffer tremendously. Kenya’s economy has been a faltering one; rising and falling.

Kenya enjoyed vibrant economic growth when it embraced Neo Marxist policies. After switching to neo liberalism, it has been much affected. Reverting back to Neo Marxism would a sure way of regaining the lost economic strength of Kenya.

CHAPTER FIVE

5.0 Findings, Recommendations and Conclusion

5.1 The key findings

5.1.1 Liberalization Caused Undue Competition to Kenya’s National Economy

At independence, Kenya’s economic policies protected both the country and the citizens from undue competition from other countries. This is because of the fiscal policies that the government instituted. Because of this, there was a considerable growth in the economy. The cost of doing business was relatively low. Large monopolies were not present. Domestic trade was encouraged. Moreover, Kenya did not rely on foreign aid. On the contrary, it relied on the regional trade. This boosted not only the Kenyan trade but also the regional trade. The economic growth was steadfast. However, as soon as the government resorted to liberalization, the economic growth took a downward trend. This was because people resorted to unorthodox ways of gaining economical advantage over others. The people with the economic means took advantage of the situation and amassed fortunes. The poor who had no substantial capital to compete in this vicious economic race became increasingly poor. The gap between the rich and the poor was widened.

5.1.2 Liberalization led to exploitation of national (Kenya) bourgeoisie by international bourgeoisies

The Kenyan economy thrived well in the days when it had a neo Marxist leaning. However after the liberalization in the late 1970s, many countries which had the means of exploiting both the human and the physical resources of the country took advantage of the situation. The country’s resources were exploited by these technologically advanced countries. Kenya only enjoyed a small percentage of the revenue from her national resources. Brain drain reached its peak. The country became dependent upon these countries for technical knowhow among other things. The economy of Kenya has never fully recovered from such exploitations.

5.1.3 Withdrawal of State Controls Affected Economic and Social Growth Patterns in Kenya

When Kenya withdrew the state controls, the rich people had the means to invest. In this way, the poor ended up being exploited. In the process of time, the gap between the rich and the poor has considerably widened.

5.1.4 Neo-Marxist Policies Would Have Produced Different Economic Growth Patterns

It is evident from the findings that the Neo Marxist approach taken by the country at independent saw the country's economy grow very well. This was from independence to the late 1970s. The poverty rate was at an all time low, with the statistics failing to find a significant number of poor people in the country.

5.2 Recommendations

5.2.1 Neo-Marxist Policies that Kenya Adopted at Independence Need Further Study

It is evident that the policies adopted in the late 1970s have failed to cause an economical take off that is desirable for our country. The country is grappling with many economic burdens. There are national debts, fluctuating economic growth, huge social disparities and national exploitation. The foreign countries have also taken advantage of the liberalized system of the Kenyan economy and in this wise, they have endeavoured to exploit the country's natural resources. Kenya has not benefitted much from such arrangements. It is time that we have the clearest understanding of the neo Marxist economic policies.

This study was limited in its scope. It has not gone into the depths of the Kenyan economic policies which led to its economic prosperity in the years between 1963 and 1970. The study of these economic policies and blue print would provide an interesting area of study. This would help in establishing the specific measures that were put in place by the founding fathers this nation. It is of a great benefit for any person who may be interested in acquiring in-depth insight of the dynamics of the Kenyan economic growth to study these policies.

It is the duty of the government to aid in such studies. Standing at the cross roads and finding the old ways should be the government's highest endeavour.

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