

The Transfer of Institutional Costs is the Root of Being Poor

Wen Tiejun*

Translator: Erebus Wong

Proof-reading: Kho Tung-yi

My empirical research started with China's experiment of rural reform during the 1980s-90s. According to the principle of experiment, only through a process of incessant falsification can we approach the truth. In the process my preliminary conclusion was the theory of institutional costs. However in later comparative studies on different countries, I found that institutional cost was not my innovation. Instead my theoretical innovation should be the discovery that the vested interest groups which appropriate the returns of an institutional transition constantly transfer the institutional costs to disadvantaged groups located at a less privileged position in the institutional structure. Therefore I revise my theory as the theory of transfer of institutional costs.

Most of the theorists agree that poverty is institutional. So-called institutional poverty is in fact caused by the transfer of institutional costs to disadvantaged groups. Institutional transition of any kind is a process of transferring the institutional costs tier by tier down to disadvantaged groups by the dominant interested blocs in order to further appropriate more of the accrued returns.

It explains why the environmental devastation is increasingly exacerbated. That is because the disadvantaged groups could at least voice disagreement. However the environment is voiceless. When the institutional costs accumulated on the back of the disadvantaged groups become unbearable, they are being increasingly transferred to the natural environment.

Institutional economics has made innovative elaborations on neo-classical economics. When we apply these innovations to understand the institutional transition of developing countries, we find something significant. I have to emphasize: institution is derivative. That is to say: institution in itself cannot explain other phenomena. It is a phenomenon that needs to

* Executive Dean of Institute of Advanced Studies for Sustainability of Renmin University of China, Executive Dean of Institute of Rural Reconstruction of China of Southwest University

be explained. My position is therefore different from institutional determinism which tends to put the blame on institution whenever it tries to explain undesirable phenomena of all kinds¹. Of course, theorists can then conveniently give an explanation to the public in regard of various misdeeds. But if we ponder on the question, we will ask whence the institution comes? In particular, how are so-called modern institutions generated? China is a developing country striving to learn from western modernization. And whence our institution comes is to a large extent a problem of historical philosophy.

Capitalist civilization has a relatively short history compared with 5000 years of civilization. Nevertheless its relatively brief existence has been devastating. Since its rise, the West has orchestrated the transfer of institutional contradictions to developing countries on three major occasions.

The first occasion was the process of colonial expansion at the beginning of capitalism caused by European industrialization. In order to expropriate resources and market as well as to export poor populations, the now-advanced countries seized the most resourceful parts of the world, namely the Americas, Africa and Australia. Eventually it led to two world wars in the 20th century.

At the same time, developing countries were being incorporated into the capitalist system and drawn into the colonial geopolitics of fighting for colonies and politico-economic/military presence.

The second occasion is the expansion of industrial capital in the middle stage of capitalism. After the 1950s the rise of the second industrialization in the West led to a transfer of general manufacturing to the less developed parts of the world. As a result, the imminence of the Third World War due to pressure of fierce competition was resolved. After War World II, the labor movement in advanced countries had pressed to improve social welfare. Apart from the rise of labor cost, the pressure of environmental protection was also being intensified. The cost of capital was under great pressure to rise. At the same time the world order forged in the age of classical colonialism began to disintegrate. The global decolonization movement gave birth to various emerging nation-states which then became the receivers of the transfer of manufacturing from the advanced countries.

The third occasion starts from the expansion of financial capital at the late capitalism.

¹ Wen Tiejun, 三农问题与制度变迁 (The Three Agrarian Sectors Problem and Institutional Transition), Part 2. Beijing: China Economic Press, 2009.

Since the 1990s an evolving financial capital has dominated the competition of globalization. Global monetization and capitalization is accelerating, which leads to the present scene in the post-colonial geopolitical strategy: the confrontation between the Dollar Bloc and the Euro Bloc.

Global cost-transferring is the root of institutional impoverishment. Therefore, institution is indeed a problem in developing countries. But the problem is not the institution of developing countries. It is not because their malfunctioning institutions are backward or wanting. On the contrary, it is because they blindly pursue modernized or westernized institutions in a precocious manner.

So-called modern institution of developing countries can be traced back to the primitive accumulation of nation at early industrialization. We merely emphasize that all modern institutions are derivative. More than 100 nations in the world are developing countries born after WWII. Due to the stern lessons of the wars, most of these nations are striving to be strong and rich. Nevertheless the models they learn from are those of their previous suzerains. As a result the modern institutions of most of the developing countries inevitably bear the deep influence of the suzerains. They are manifested in institutions like parliament, the legal system, army and police, etc.

However the first problem confronting nearly all of these developing countries is the extreme scarcity of capital. As industrialization is an incessant process of adding capital investment, the intensification of capital is an inherent mechanism of industrialization. As a result any nation striving to speed up industrialization would have to build institutions seeking after capital. The governmental policy would then necessarily be pro-capital. For general developing countries the goal of industrialization is inevitably going to be challenged by an extreme scarcity of capital. Therefore no matter what kind of ideology or system a nation proclaims to cling to or insist on, its institutions derived from the goal of modernization would inherently be pro-capital.

This is not to say that ideology is not important. We just reiterate the basic principle of classic political economy: any ideology has to be subject to the constraints of the economic base.

To be plain speaking, the lesson we can learn from these experiences is willy-nilly inconvenient. If a developing country in pursuit of industrialization/modernization builds up a superstructure and institutions which are precocious and unhelpful to the primal accumulation

of capital, the superstructure will react upon its economic base in a negative way. The institutional costs of modern institutions then become increasingly unbearable. Eventually the nation is bound to be ensnared in a developmental trap that is hard to get out of.

Thus it can be seen, governments are inherently pro-capital. It is necessarily a policy proclivity when a nation pursues industrialization under conditions of capital scarcity. It has been a long time since WWII. But it is rare to witness a successful example of big developing countries that have achieved industrialization by copying the institutions and cultures of the West.