

## Economic Development and the Definition of Wealth

- There is a great misunderstanding in using the concept economic development
- We are accustomed to say economic growth rather than economic development.
- The two concepts differ in many respects; and as such they create too much confusion
- The concept economic growth is usually limited to a specific time horizon, whereas economic development is a process, and it is timeless by nature.
- Economic growth per definition implies the amount of goods and services that are produced within a specific period of time, say a year.
- The concept economic development implies a gradual process that is not unidirectional but multidimensional in nature.
- Since economic growth is synonymous with GDP, it is not transformational in character, and has a very limited dynamism.
- On the other hand economic development is transformational and has inner dynamism, and if it is well-planned it has greater impacts on a given society.

# The Great Confusion!

- Today it is common to say that the economy of such a country has grown, say by 10 or more per cent, while the life of the people in that particular country has not changed, and in many cases has worsened.
- 10 years ago, that was exactly in 2007 when the G 8 meeting has taken place here in Germany, one German guy who works for the World Bank was invited to give us a lecture about the economic performance of African countries, here in Berlin, in the Africa House.
- As every body remembers, because of the demand of raw materials in the world market, especially from China and India, and other emerging economies, many African countries had benefited from this demand.
- As the consequence, the economy of some African countries that export raw materials has grown by an average of 6 per cent yearly. The German guy was fascinated by this kind of economic growth, and said to us that many European countries are dreaming of such kinds of economic growth.
- But the guy has never attempted to tell us about the fundamental differences between the economic structure of Europe and of those of African countries

# Confusion... continue

- While the guy said this to us nobody has tried to challenge him. Instead the guy got a great applause.
- We hear such kinds of confusion from every corner, and as things are being repeated they become truth.
- Over the last 10 years especially the economy of China, India, Brazil and Russia has astonishingly grown by over 8 per cent.
- Yet even among these emerging economies there are big differences.
- The most remarkable economic growth has been occurring in China since the last 30 years.
- The depth and scope of China's economic growth is not similar to that of other emerging economies.
- Since the Chinese have tried to modernize all the sectors, including the military, the economic growth in China has greater impacts on the entire society in comparison to other emerging economies.
- On the other hand from this kind of economic growth all have not benefited. There is huge income disparities among the population.
- Yet if you compare the economic growth of China with that of Germany or America, there are huge differences. That means China needs still 50 or more years to catch up Germany.
- Therefore when we use the concept of economic growth we must be careful.

# Why do we have such kinds of confusion?

- We have this kinds of confusion because we believe in numbers rather than in improvements in the human life, and social progress in general
- Other aspects like well-planned cities and villages are not within the scope of our thought.
- Even we do not ask the essence and consequences of such kinds of economic growth, and the hasty economic activities which we see every where.
- The impacts of such kinds of economic growth on the environment, on the social conditions of the people, on their health, on the entire social fabric of a given society are no more concern to us.
- What matters is economic growth, simply about numbers.
- As such we do not impose the following questions: Who plans such kinds of economic growth ? Who benefits from such kinds of economic growth? What are the consequences of such kinds of economic growth ? Is this kind of economic growth sustainable ? Can such an economic growth fulfil the basic needs of the people ? These questions are no more any concern to us.
- Because these kind of beliefs and attitudes have been spread across the globe, consciously or unconsciously we sing the same kind of song.

# Why do we believe like this?

- Intentionally or not we have taken for grant this kind of belief.
- We have adapted a mechanistic world outlook. That means we think and handle as if nature does not posses life, or soul.
- We believe that we live in this world to produce and consume only without caring about other things.
- For example how we can create a beautiful world, in which we can satisfy both our material and spiritual need is not in our imagination.
- Hence we simply understand that nature is an exploitable object
- We believe that nature needs us not the other way round.
- And this mechanistic world view has been strengthened over the last 200 years, as capitalism has spread across the globe in search of markets and raw materials.
- The theory that international trade can transform societies, and money making is the most important aspect of human life is driving humanity to an unknown destiny.
- Therefore many countries become an arena of money making, rather than organizing the people for creative activities that can truly transform their lives.
- Especially the globalization of the last 30 or more years, has created uncontrolled or chaotic situations in many so-called Third World Countries.
- Hence, many African governments and their people cannot decide over their destiny.
- They are not allowed to organize their societies in the way they like.
- In short, the destiny of humanity is being decided by the inner logic of capitalism, not by each individual country. That is the dilemma we are facing today.

# Can there be an Economic Growth without Capitalism?

- Across the globe there is a great confusion about the concept of market economy and capitalism.
- Especially African countries when they adopt market economy, they do not understand the essence of their handlings.
- It is simply taken for grant that the implementation of a market economy brings economic growth.
- In order to achieve a certain amount of economic growth everything must be privatized.
- Only a deregulated economy brings economic growth, and if that is the case all benefit from such kinds of reforms.
- **No body asks for a while whether such undertakings bring prosperity or wealth to the entire society or not.**
- Many think and believe that without altering the production relationship, without the existence of entrepreneurship which is industrially gifted, and without science and technology, by simply applying macroeconomic parameters, the economy can adjust itself.
- The intellectual loophole that exists in many African countries is comfortable for the so-called international experts to manipulate African leaders.
- Now at least after 50 years of market economy practices in many African countries, many countries are not even in a position to fulfil the basic needs of their people.
- From this vantage point let`s try to examine the essence and inner logic of capitalism

# Capitalism and Economic Development!

- Almost in all societies there has existed a certain kind of market economy.
- Generally seen, consciously or unconsciously most societies have gone through any kind of a market economy.
- But all societies could not develop capitalism, or could not foster industrialization.
- Capitalism and industrialization are the products of Western societies.
- This is because, the Europeans had the chance of getting knowledge from the Greeks by the Arabs and Jews, that enable them to open their minds.
- But that does not mean that the Greek civilization could inevitably lead to capitalism.
- The development of towns in the Middle Ages, the development of handicraft activities and far trade laid the foundation of capitalism.
- With the development of a unique cultural atmosphere, that has its own inner dynamism, scientific thought and technological development has become the features of many western societies.

# Industrialization and Economic Development!

- Whether we are against or in favor of industrialization, economic development is not possible without industrialization.
- At the very beginning I said that economic development is a continuous process , and as such industrialization too.
- When we speak about economic development, we must also speak about industrialization.
- To make things simple: industrialization, technological development and science are related to each other, and as such they are the foundation of genuine and holistic development.
- In human history there has been some kinds of technological innovations.
- Only through a certain kind of technology human beings can transform raw materials to usable forms.
- To engage themselves in agricultural activities, and raise the productivity of their land human beings have to introduce better tools or instruments.
- In order to feed the growing number of mouths, the productivity of agriculture must be raised to a certain level.
- In short, technology and technological changes are the preconditions of human existence. This must be hold in our minds.



# The Technological Parameter!

- We have seen that almost all societies have developed some kinds of technologies to cope with nature, and to transform raw materials to edible or useable forms.
- As such scientific thought and investigation is not the precondition of earlier technologies.
- By using their common sense human beings were able to invent any type of instruments that could ease their lives.
- Even until the 18<sup>th</sup> century scientific researches and investigations were not common in Western Europe.
- All technological developments until the 18<sup>th</sup> century were the results of trial and error, simple common sense and human imagination.
- As Orio Giarini, clearly analyzed: “ As far as technology is concerned it is important to distinguish between two distinct phases: the first one, with no contribution and the second one, with full contribution of scientific discoveries.
- Again as Giarini said: the first industrial revolution is associated with the spread of new technology: the flying-shuttle loom and the steam engine are the main symbols of the new industrial era. The technology was in no way associated with science.

# The scientific Parameter!

- The second industrial revolution starting in the middle of the 19<sup>th</sup> century is based on scientific discoveries.
- With continuous efforts it is possible to develop sophisticated and efficient technologies.
- Especially by intensively studying the secret of physics it is possible to develop new technologies.
- In turn with the aid of new instruments it is possible to study the structure of materials.
- Physical investigation, the application of new instruments to study the nature of the materials helped to expand knowledge.
- In short, human beings can transform their lives when they understand the secret of nature by the help of ever sophisticated technologies.
- What does it mean this kind of scientific application when it is related to economic process and economic development ?
- The application of science to economic activities has enabled western societies, to raise the productivity of labor, by producing ever sophisticated machines.
- It is also possible to investigate and produce new systems of transportations, like trams, rail systems, buses, aero plane.
- The production of such kinds of transportation systems are not possible without scientific researches.
- That means without this kind of scientific application there is no true economic development.
- When we speak about economic development we have to relate it to science and technology. This leads us to the next sub-title.

# The Consequences of Science and Technology!

- The fact that you find me here or we come together to exchange ideas can't be imagined without science and technology.
- The development of the living standards of most western societies to such a level can't be understood without science and technology.
- Without becoming conscious about it, our daily life is being influenced by science and technology.
- To produce medicine and medical instruments, scientific researches and applications are necessary.
- Science and technology are also useful in reducing the environmental pollution what human beings have inflicted to the environment.
- On the other side without ethical standards, science and technology can be misused.
- Certain nations produce ABC weapons which are very dangerous to all humanity.
- The intensity of technological development has also negative effects on the human condition.
- That means if we cannot make a certain standard and limitation to science and technological development, human beings will become the victim of their own success.

# The Money or Capital Parameter!

- The development and advancement of science and technology is not possible without money or capital.
- It takes years to research and develop new technologies.
- And in order to realize new technologies there must be a mechanism of financing research and development.
- To finance research and development Banks are not interested, because they do not know the outcome of long term investments.
- The Banking sector is only indirectly involved, either by having a share in big industries, or giving credits for consumers.
- In all western capitalist countries governments are directly financing research and development, and facilitate universities so that highly qualified students can be involved in developing new technologies.
- On the other hand the valorization of commodities in all forms, and investments in new technologies are directly interlinked with the banking sector.
- In this case one can say that money capital is the motor of capitalist development.
- The organization of industrial society, and its sophisticated nature, and the development of capitalism to such a level is directly or indirectly interwoven with the banking sector, or with finance capital.

# Money as a Speculation Object!

- Historically money facilitated trade before it began serving as capital
- Later on money capital is turned to be the engine of rapid industrialization.
- Especially the development of various types of credit mechanisms have quickened the valorization of capitalist commodity production in all forms.

M- C- M<sup>1</sup>

- Whether one criticizes the capitalist system or not, the main aim of production under capitalism is to make more money out of the invested money.
- This is logical and is acceptable as long as it goes through normal processes, and as long as workers are paid according to the accepted tariff system, and their contribution to productivity.
- In other words, capitalism can only function when workers can buy what they themselves produce. Without strong buying power there cannot be capital accumulation.
- This has been the case since the end of the 1950s and through out the 1960s and 1970s.
- In these periods more people can afford to buy houses, cars, refrigerators, wash machines and other things.
- Since the beginning of the 80s, however we observe that the greatest part of money capital is not invested in the real sector.
- Money capital instead of going through the above process, it becomes a speculative object. Instead of M-C-M<sup>1</sup> the main aim becomes to make more money out of a given amount of money.  
( M-M<sup>1</sup>)
- Because money capital is not invested in the real sector, the lack of investment creates unemployment. In this case Banks will be compelled to speculate and forward part of the money capital in form of debt. Since the end of the 1970s the financial sector become the source of lending and international debt mechanism.
- Money capital that is dissociated from the real sector becomes by itself the source of capital accumulation on a world wide scale.

# The Meaning and Creation of Wealth!

- The concept of wealth and its creation is interpreted by different schools of thought differently.
- According to the first thinkers, the Physiocrats, only agriculture is seen the source of net product or wealth.
- In other words the source of wealth in the Physiocratic thinking is only the peasantry.
- According to the Mercantilist economists the wealth of a nation depends on the accumulation of Gold and Silver.
- This can occur only through favorable balance of payment policies.
- For Adam Smith who systematized political economics, the sources of value, which is equal to wealth, is labor.
- Almost all classical economists including Marx believed that value can only be created or produced by labor power and not by other means.
- However Adam Smith emphasized the necessary of Manufacturing for the creation of Wealth.
- According to Smith the market size of a given country depends on the division of labor and manufacturing.
- At the end all instruments of labor, including machines are the results of previous labor.
- However there are some differences in the thinking of Adam Smith and Karl Marx.
- For Marx the capitalist system is intrinsically dynamic, and develops from one stage to the other.
- In this case it becomes complex, interwoven and diversified.

## The Creation of Value !

Raw material

= Extraction  
value

+

Transformation 1

= Value added

+

Transformation 2

= Value added

+

Finished product

=  $\frac{\text{Total value added}}{\text{value of the product}}$  = Price = Market demand

# Wealth as a Physical Dimension !

- According to Professor Soddy, a noble prize winner in chemistry in the 1930s the source of true wealth is the inanimate matter.
- That means what human beings need for their existence is stored in nature or in the earth, and that means we find everything in nature.
- According to Professor Soddy, solar energy empowers us with all life processes .
- In other words, nature cannot be imagined without the solar energy; and all plants to grow and yield fruits, they need energy which comes from the sun.
- Again energy that is accumulated in the earth in the form of coal, is directly connected with solar energy.
- In other words economic progress and hence the creation of true social wealth depends on the conversion and quality of energy.
- From this Professor Soddy deduces that true wealth has a physical dimension, and cannot be a monetary one.
- In his words: „ Wealth is the humanly useful forms of matter and energy.“ In other words wealth is both a physical dimension and a teleological dimension.
- Money is related to debt and is subject to the laws of mathematics.
- That means banks create credits and give them as credits with compound interests, which is the true source of economic crisis.



# The Dilemma of Africa !

- The huge and complex problem of Africa emanates from false understanding of the laws of political economy ; that means the essence of creating true wealth.
- Over the last 6 decades many African countries have been pursuing economic policies that contradict the laws of nature or the laws of energy conversion.
- The economic policies of many African countries have been imported from outside, whose sole purpose are not to create social wealth by applying the laws of energy conversion and developing from time to time high quality energy.
- The policy is purely based on trade, and is directed to make money without really investing it on physical capital.
- As we see in other Third World countries, the chaotic situations in many African countries emanates also from the misunderstanding of the laws of nature and the meaning of society.
- Undoubtedly global capitalism has distorted the meaning of genuine development.
- The fact that many African countries do lack effective institutions, they become the victim of capitalism.
- Among other things, many African countries do not have scientific research centers that can develop new technologies, and that will in turn help them to convert energy from one state to the other.
- That means in the absence of a well-established scientific community, whose sole purpose is to produce new technologies the production of national wealth is practically impossible.
- This means also that African countries could not invent new technologies that will help them to produce efficient energy system.
- Again without efficient energy there cannot be technological development.

# The Neglected Factor!

- Besides neglecting or misunderstanding the laws of energy conversion, many African governments have totally undermined the human factor.
- In order to exist, think and work human beings need food, water and shelter as the basic needs.
- In many African countries satisfying the human needs with the necessary Vitamins, Proteins, Minerals and other essential things have never been a central issue.
- Many African governments do not understand the necessity of developing their countries from below, by designing a strategy of holistic approach that can empower their people.
- Therefore the first priority of African governments must be to delink themselves from the policies of the IMF and the International community, that want to direct humanity into a simple economic agenda, i.e. expanding free trade zones across the globe.
- In other words, the entire globe must be converted into a neo-liberal shopping area.
- If African countries want to develop earnestly, they must start from below, by pursuing a gradual and holistic policy of not only economic development, but also cultural, social, and political development.

# An Alternative Solution !

- We know that many African countries possess plenty of resources that can be used for real social and economic development.
- If African countries want to bring real changes they can even develop without relying on foreign aid or resources.
- With the existing technologies they can systematically mobilize all the available resources, including human power.
- Until now the mobilization of the human factor for development purposes has been neglected in many African countries. Millions of Africans without having proper job and ordinary life, they are simply rooming in the cities.
- This is practically waste of resources, that is equal to destroying the human soul. It must be clear that only human labor can produce value and hence social wealth.
- In order to mobilize the available resources, institution building must be the first priority. Without proper institutions there can't be any real development.
- The building and expansion of institutions will help to mobilize all the available resources.
- This will in turn help to produce the basic needs, like proper diet, housing, proper sanitations, education of various types and others that are essential for human life.
- Other aspects, like focusing on alternative medicine, land management and proper city planning system are part of this program.

# Small is Beautiful!

- African countries if they want to develop, they must rely first of on small things
- Countries that start with big projects, will be having big problems.
- African countries should learn from the failed developmental policies of Brazil, Mexico and other Latin and Central American countries.
- Small projects are manageable, and are flexible. That does not mean that small projects should remain where they are. They can grow as the needs of the society grows.
- I mean by small projects, handicraft activities of all kinds, small and medium size industries that can really create internal market. With small projects one can easily mobilize all the necessary and available resources.
- Until now the industrial policies of many African countries rely on big industries, and are concentrated mainly in the capital cities. Rural areas, and other regional towns are out of the scope of any developmental policies.
- One can say today that African countries have never pursued real development policies that can produce true social wealth and create internal market.
- Truly speaking many African countries do not have internal markets. Because the internal markets have not developed or weak, people cannot build communities, that bring them together.
- If they cannot build true communities, they cannot develop mentally, and cannot create social, environmental, cultural, and political awareness.
- Only through communities they can develop all kinds of awareness and become true citizens.

# The Politics of Basic Needs!

- Institution building at local and regional level
- Organizing funding mechanisms by issuing bonds
- Organizing food for work program
- Mobilizing the masses for various works (Agriculture and soil management, building houses for the masses, constructing roads and city buildings, sanitation, gardens, recreation and cultural centers, etc. )

Mobilizing all the material resources to meet the basic needs!

1. Priority → Self-sufficiency in Food
2. Priority → Clean water
3. Priority → Housing
4. Priority → Building health care systems( Alternative Medicine)
5. Priority → Sanitation
6. Priority → Education

# *Systematic Creation of Social Wealth!*

## *The Principle of Physical Economy!*

Man + Machine    $\longrightarrow$    Acting on nature    $\longrightarrow$    Cultivation &    $\longrightarrow$    Transforming nature  
( Mind+ Machine)   ( Feel, Think and Handle)   Extracting mineral resources   through    $\longrightarrow$    Man+ Machine + Energy



**Finished Products of all kinds = Social Wealth**

**Fekadu Bekele**

**May, 2018**