

# Globalisation, Modern Nation State, Private Property Rights and Development co-operation

Paul Drechsel 2003

There is no doubt, globalisation is on the agenda. That is not only true for Business, but also for world politics. In September 2000 the United Nations Assembly passed the *Millennium Declaration* (Resolution 55/2) and the *Millennium Development Goals* (MDGs). The Millennium Declaration appears in regard to the multitude of topics and aims as a new declaration of Human Rights for the global age. Central are overall values of living and principles of Good Governance in a global World. In the following a list of the main topics and values

- Global Values and principles
- Fundamental values
- Peace, security and disarmament
- Development and poverty eradication
- Protecting our common environment
- Human rights, democracy, governance
- Protecting the vulnerable
- Needs of Africa
- Strengthening the United Nations

There are still great obstacles in becoming a global world where all people can live in peace, in good health, are educated and have a decent income. On the one side economic globalisation is going ahead for a small part of world population, on the other side there are still miseries for a majority of the people of the world. The Millennium Goals 2015 are targeting these obstacles:

The Millennium Goals 2015 are:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria, and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development.

The heads of states commit among other things to halve, until 2015, the proportion of people whose income is less than \$1 a day (1.2 billion people; 2.3 billion people are living of \$2 a day)); to halve the proportion of people who suffer from hunger; ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling; to eliminate gender disparity in primary and secondary education, preferable by 2005 and in all levels of education no later than 2015; to reduce by two-third the under-five mortality rate; to reduce by three-quarters the maternal mortality rates; have halted by 2015 and began to reverse the spread of HIV/AIDS; and develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development and poverty reduction). The responsibility to reach these goals is not

only lying in the hands of politicians but also of civil society and the private sector. Democracy, rules of law, Good Governance, a say of the citizens and free media are conditions to reach the goals.

For example as in other developed countries the German Government took over these responsibility and passed a national 'Action Programme 2015'.

In the year 2003 the World Bank published a series of reports about the *state of the art* in regard to economic and financial globalisation as well as some important topics of the Millennium Declaration: *Making Services Work for Poor People*, *Breaking the Conflict Trap* und *Land Policies for Growth and Poverty Reduction* and the *World Development Report 2004*.

All in all these reports can be seen as an industrious piece of work. The World Bank summarizes: Success in reaching the MDGs will depend not just on faster economic growth and the flow of sources, but also on our ability to translate those resources into basic services, especially in health, education, water, and sanitation. Too often, the delivery of services falls far short of what could be achieved, especially for the poor. There is a simple truism: Without private production and jobs the poor will never overcome poverty.

#### **World Bank Report Land Policies for Growth and Poverty Reduction (2003)**

The World Bank Report about Land Policies for Growth and Poverty Reduction (2003) addresses an important topic which is very often distorted in the development discussion, either because of ignorance or because of ideological reasons. It is the private property on land and estates. This report makes it very clear that value creation is only possible in open markets with strict individual property rights on land and estates. Capital for value creation needs unambiguous legal ownership on private property rights. No one can get a credit or can undertake business, when he/she is not the owner of land, estates, commodities, services, itself of his own labour force. No private ownership over the own labour force is slavery! This report is very clear in promoting private property rights on land for poor people. This contradicts some idealistic or theoretical discussions about the value of so-called 'communal land'. This collective property rights on communal land seems in some corners to be a kind of 'holy cow' in debates about development. It is really strange, what no Westerner would accept for themselves should be a solution for the underdeveloped countries in the South!

In this regard it makes sense to mention the book of the meanwhile reknown economic scientist and theoretician of development Hernando de Soto: *The Mystery of Capital. Why Capitalism Triumphs in the West and Fails Everywhere Else* (2000). He demonstrates convincingly the importance of private property rights on land and houses/estates as a primary condition for development. Worldwide he undertook research about 'informal structure' and 'informal economies'. In most underdeveloped countries he found a huge potential of capital only existent as 'dead capital', because there are no proper private property rights on this capital. Who will be economically active when it needs uncountable walks during several years through the bureaucracy to register the own property? This is no way to strengthen the economy and to foster development in underdeveloped countries. On the contrary, it is the best way to prevent reaching the Millennium Development Goals in the year 2015; or any development at all.

The sub-organisation of the United Nation for Development Programmes also presents in 2003 a Human Development Report, a thoroughgoing study about the state of the art in reaching the MDGs three years after its declaration. To say it cautiously, there are alarming realities in the year 2003. There is a straight warning that there could be a sever development crisis when there will not be radical changes in the policies of the developed as well in the developing countries.

To cite a part of the complains of the UNDP-Report:

“There are 59 top priority and high priority countries, where failed progress and terribly low starting levels undermine many of the Goals...

In the 1990s these countries faced many types of crises:

- *Income poverty*: poverty rates, already high, increased in 37 of 67 countries with data.
- *Hunger*: in 19 countries more than one person in four is going hungry, and the situation is failing to improve or getting worse. In 21 countries the hunger rate has increased.
- *Survival*: in 14 countries under-five mortality rates increased in the 1990s, and in 7 countries almost one in four children will not see their fifth birthdays...
- In the 1990s average per capita growth was less than 3% in 125 developing and transition countries, and in 54 of them average per capita income fell.” UNDP Report 2003:3)

In 12 countries primary education is going down the low road. In 34 countries life expectation is going down. In 21 countries there is a decline in the *Human Development Index*. On the other hand, the netto transfer of development aid by the donor countries is in decline. Also the debt-crisis couldn't be solved in favour of the poorest countries.

The UNDP-Report states that there could be a positive change for progress towards the Millennium goals. Six policy clusters could help countries break out of their poverty trap:

- Invest early and ambitiously in basic education and health while fostering gender equality. These are preconditions to sustained economic growth. Growth, in turn, can generate employment and raises incomes – feeding back into further gains in education and health gains.
- Increase the productivity of small farmers in unfavourable environments – that is, the majority of the world's hungry people. A reliable estimate is that 70% of the world's poorest people live in rural areas and depend on agriculture.
- Improve basic infrastructure – such as ports, roads, power and communications – to reduce the costs of doing business and overcome geographic barriers.
- Develop an industrial development policy and nurtures entrepreneurial activity and helps diversify the economy away from dependence on primary commodity exports – with an active role for small and medium-size enterprises.
- Promote democratic governance and human rights to remove discrimination, secure social justice and promote the well-being of all people. (UNDP-Report 2003:4)

The UNDP offers a new Millennium Development Compact to mobilise all politicians to do their job properly. I am satisfied that the UNDP mentions explicitly nurturing entrepreneurial activities as well as small and medium-size enterprises.

## **Summary:**

Since forty years there has been development co-operation and the North has spend billions for development aid of the South. Why we have in the new millennium still these realities in the South and why the fear that it will not be changed until the year 2015, despite the promises of the political leaders of these countries to do their level best to reach the MDGs? What could be the reason for this negative state of the art of the conditions in the South and what the remedy to overcome it? Really additional input of development aid by the North into governments of the South for capacity building? Or inputs for the creation of entrepreneurs to create jobs and income and also tax for the government? The World Bank Report about Land Policies is referring to private property rights on land and real estates, the UNDP report urges for entrepreneurs and labour force and de Soto makes convincingly clear that there is a huge amount of 'dead capital' in the countries of the South, until now not used for development. Why do we in the North always trying to help the political domain in the South and do not more for their economic domain? Development aid from the North is part of the tax democratic governments is collecting from private business, income and market exchange as VAT. There has to be value creation in the economic domain before it can be taxed and used for development aid and co-operation. Tax is not coming like manna from the heaven. But why do we presuppose this mechanism in the North in order to get financial means for development aid and seemingly forget this mechanism of wealth creation in regard to the economic and political realities of the nation states in the South? Something seems to be very distorted in regard to the development co-operation and also in regard to the structures of nation states of the North and the South. Without a better knowledge about these structures there will be, as the UNDP fears, no realisation of the MDGs in the year 2015.

## **Ideal-typical structure of the modern nation state**

At present all people on earth are living in modern and sovereign Nation States. This means they all have a government, a constitution, a legal system, citizens and territorial boundaries. They are all members of the United Nations. This does not mean that all nations are the same, have the same constitution and so on. It only means, they all have in an ideal-typical sense structures of a modern nation state.

We know, this modern nation state is a relatively new political entity which appeared at the beginning of the last century. For thousands of years it doesn't exist. Before we had Empires, Kingdoms and so on. Therefore, there had to be a fundamental switch in the political and social structures during the development from the former types of political entities to the modern nation state.

Let us study this fundamental switch in regard to the most developed modern nation states. In the political view they are democracies with basic constitutions and in an economical view market-societies. In the political sphere there is a division of power. Between the political and economic sphere there is a strict separation between both 'social' spheres – both spheres are for themselves autonomous and mutually exclusive. Compared with the former entities these attributes doesn't exist, or only partly. There was no division of power, on the contrary, no democracy and no clear separation between the political and economic space. All these had to be gained by fighting and power struggle. Very rarely there was a peaceful transition to democracy

in history. This all means, there have to be a very fundamental change in the structure of a society from the former structures to the new ones. But what was it?

Usually it is thought it would be a fundamental change in the political structures. From centralised non-democratic systems to decentralised democratic systems. That is true, but in fully-developed democratic nation-states we have among others two fundamentally distinct or separated spheres of actions: political and economic. What could have been the change in the economic sphere? Was it already separated in the centralised non-democratic systems? This was not the case! But why is it now in democratic systems separated from the political sphere and autonomous? What happened during the switch?

It is strange, this question is rarely or not answered at all in the discussions about modern nation states and their transition from former systems. It seems, the economy is neglected as a force for transition, despite it is the fundamental base for all modern democratic nation-states. I will not discuss this strange silence about the economy but asking, what could be the reason that the economy appears as an autonomous sphere of actions? The answer is: Because of the appearance of individual or Private Property Rights and free Markets. That is exactly what constitutes basically the autonomous sphere of economic actions in democratic nation states. Without it it wouldn't exist, and this is exactly the answer what didn't exist before this transformation: No Private Property Rights and No Free Markets! There cannot be any full-fledged democratic nation state without strict Private Property Rights and free markets, because this is a precondition for democracy, which means for democratic politics. Therefore the democratically constituted sphere of action is a consequence of individual freedoms in the economic sphere and not the other way round, as many politicians as well as citizens believe.

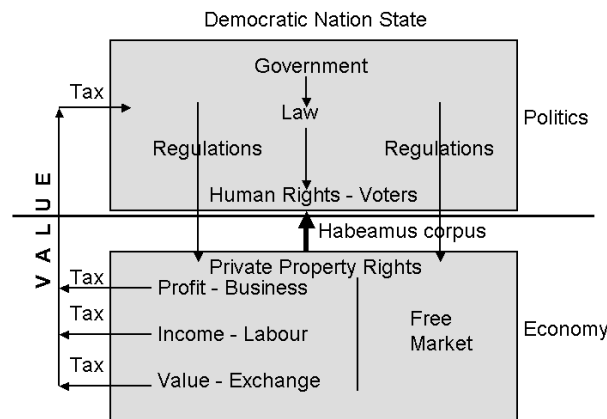
Why are Private Property Rights and free markets a condition for the political structure of democracy? Because a private property owner must not only be a private and exclusive owner of his or her properties, additionally he or her must also belong to it/herself! He/she as a person with his/her cognition and will which must belong to him/herself. This was expressed very long ago in England by the famous 'Habeamus corpus'-act: I belong to myself. In regard to my cognition and will it means: I have a free will and this Freedom of will belongs only to myself. This belonging of an individual Free Will is a condition of Private Property Rights, because it is a condition of exchanges of private property rights in the free market. At the same time it is a condition of an individual expression in the sphere of politics. There it appears as the individual free voting right. The free private property owner decide about THEIR political power. The consequence is, this free individual voters can swap away political power, but not their sphere of expression, which means democratic structures. Not the politicians decide any longer about power, but the free individual voters as free private property owners. That is itself in democracies not what the politicians always like to hear. All in all this properties of individuals in fully developed democratic nation states is called Human Rights.

To come back to the private property rights and free markets. We have two fundamentally separated spheres of actions. It is evident, in democratic nation states they have to interact, otherwise we wouldn't have coherent democratically based nation states. How do they interact? Again the answer is easy, but seldom fully understood.

- 1) By definition the political sphere is no economic sphere and vice versa, both are separated and autonomous.
- 2) Individual voters and individual property rights owner as one and the same 'habeamus corpus' are part of both spheres.
- 3) Wealth is only created in the sphere of economics.
- 4) The political sphere cannot exist without financial means.
- 5) The relation between the economic and political sphere of action is expressed by tax and legal regulations for voters, private property owners and free markets.

This combination is called a democratic 'Rechtsstaat'.

A figure:



This is in an ideal-typical view of the basic structure of a full developed democratic Nation State based on Human Rights and Private Property Rights.

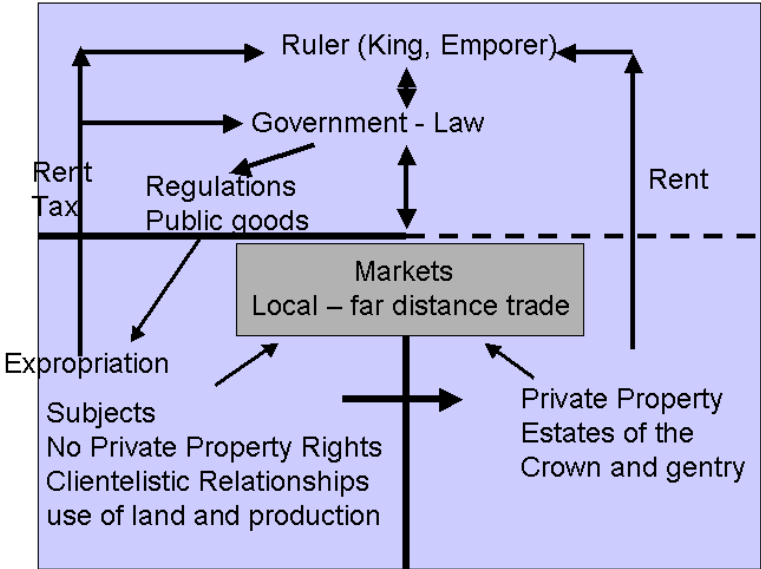
In the German basic constitution as well as in most other OECD-states we have a guaranty of private property rights as well as private rights to have a job (Berufsfreiheit), which means everyone can decide for its own about his/her labour force. Both factors of production, capital and labour, and its ownership is fundamentally privately based. This means, out of structural reasons a democratically constituted government cannot be an owner of capital and labour. This is evidently expressed by the two strictly separated spheres of political and economic spheres of actions in the figure above.

Admitted, this contradicts every reality in modern democratic nation states, but this doesn't matter. In this case the empirical reality cannot falsify the basic structure of democracy and the basic constitution, because both have the property to be 'contrafactual'. There is another consequence: The politics in highly developed democratic nation states is distorted and not in agreement with the basic structures of the constitution! In a structural sense the basic constitution forbids that the government is acting as a private entrepreneur in order to have another source of income. Its only income is tax! The extension of tax in regard to the GDP of a nation state is therefore an indicator of the freedom of actions of the voters and private property owners in a democratic nation state, because to be an owner of value expressed by money is another indicator of the individual amount of freedom.

Most modern nation states are known as modern welfare states. Because of this relationship of ownership of values and personal freedom the governments try to enable everyone in the democratic society to be free, which means to be an owner of

values, especially in regard to the poor, unemployed, the old and ill people. Additionally the democratic government feels responsible for the infrastructure, education, health and so on. This costs a high amount of money and it must be generated via tax. At the moment in the year 2003 all highly developed modern nation states are at the limit of this welfare state. They can no longer finance it because of the relationship between ownership of values and freedom there is the real danger to destroy democratic freedom in the economic sphere of actions, because there the values are produced. The government must not be a private entrepreneur to destroy the strict separation between politics and economy, it can do the same via a high burden of tax. Therefore everywhere taxes should be reduced and the welfare state reorganised. The free market needs freedom, which means metaphorically seen free air to breath; otherwise there will be no longer any high value creation. Exactly this was the case in the political structures of centralised states before the appearance of modern democratic nation and welfare states. For comparison let us present its ideal-typical structure:

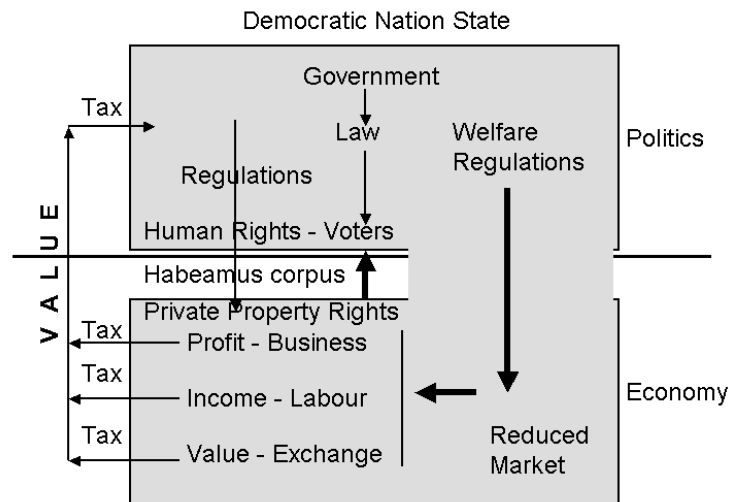
Pre-Modern State



This is a simple ideal-type model of a non-democratic centralised political and economic system, sufficient for my discussion.

There are no individual private-property owner besides the ruler and the gentry, and there are no voters or a political reality of 'habeamus corpus'. The whole sphere of economy was mainly based on agriculture and less trade. Instead of tax there is simple expropriation. There could be a kind of tax, but if at all the political sphere is based on rent as income. But most important, the ruler and its government is itself a kind of monopolistic entrepreneur and gets also income as rent from his/her estates. There was no strict separation between the political and the economic sphere, because the subjects were not free, which means no private owner of itself, they were no individual private property owner and not at all individual voters. Therefore there were no overall free markets, but only small parts for local markets and far distance trade. In order to get the structure of the highly developed modern nation states all this had to be radically changed. Referred to the first figure above highly developed democratic modern nation states differ radically from these former political and economic structures.

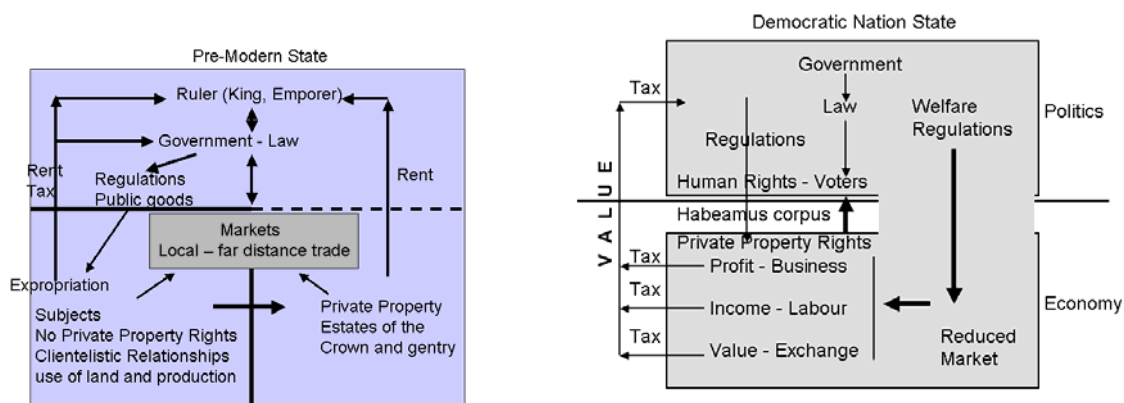
Now let us have a look at an ideal-typical model of a modern welfare state:



In regard to the structure of a modern democratic welfare state we can see that the government is heavily involved into the economic sphere. In this sphere there is nothing else than business as production and services, labour and market exchange, altogether combined and involved into creation of values. Now the welfare politics interferes into business, labour and exchange, which means there is no longer a strict separation between politics and economy. The welfare state is doing it by law and political manoeuvrings, materialised by money and regulations. The money is coming from formerly extracted tax. Therefore in an economic sense this 'well-fare-doings' are in regard of business subventions, in regard of labour a kind of additional wages or income and in regard of exchange for creating values a kind of distortion of market forces, because this 'welfare-inputs' appear as values which must no longer be generated by the market.

I will not argue that welfare would be fundamentally bad. Because the welfare support can strengthen the conditions of freedom of citizens as labour force and capital owner, for this aim it has to operate in the free market, because it changes the conditions of the individual players in this market and therefore the ways and rules of exchange. It is not only a change of the individuals, as it is normally thought, it is a change of the rules and conditions of the market. There is a limit what the free market can digest to be still free. Therefore I argue there should be a limit, otherwise welfare functions like a drug.

But there is a far more interesting relationship between the pre-modern state and the democratic welfare state, which can only be seen when we compare both ideal-type models:



Comparison:

Left pre-modern model

No separation of politics and economy  
Subjects not free and no property owner  
Subjects are expropriated or pay tax

Government is ruling subjects  
Ruler IS Private Property owner

Ruler is extracting rent from his  
economic property

right modern model

separation of politics and economy  
Citizens free and property owner  
Citizens as entrepreneurs and labour  
force pay tax; exchange is taxed.

Government is regulating citizens  
Government is NO private Property  
Owner

Government is subventing the  
economic sphere

What is evident, there is in one way or another a complementary relationship, but also some contrarities and some inversions. Most important is the separation of the political domain from the economic domain. This frees the former subjects to modern citizens and transforms them into individual private property owners. Contrarily politicians are no longer private property owners. Under these conditions the whole system changes into a totally new reality. Both systems extract taxes, but the extraction of rent by the former ruler changes into the opposite, namely subvention of the economic sphere. This means: When politics is radically separated from the economic sphere and is no longer a rent-seeking institution and no longer a private property owner, it changes into another form of economic agent, namely a welfare subventionist. Was the function of the pre-modern ruler in the economic sphere rent-seeking, the function of the modern ruler in the economic sphere is subvention.

Subjects not free + domains not separated = rent seeking politics in economic domain  
Subjects free + domains strictly separated = subventionist politics in economic domain

This is a structure like an oxymoron in rhetoric, but throws light on a deep secret in modern nation states. Metaphorically one could argue, the modern wolf appears as a milk giving sheep. To take it earnest, the modern welfare states allows politicians to bridge the gap between the political and economic domain and playing a double game, which means making politics in the domain of economics and free markets both by definition and constitution as free from politics. It is the sweet poison of modernity called 'welfare'.

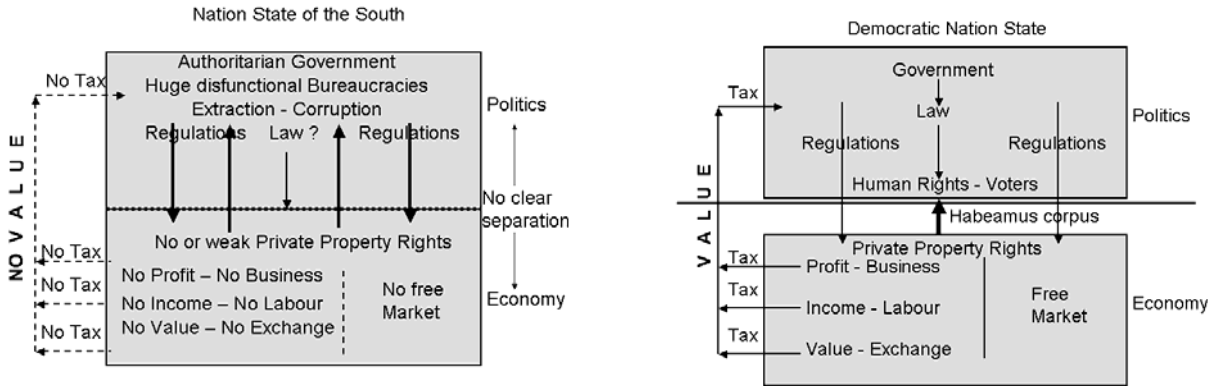
There is a structural logic and there is a proof in history that this logic discussed above is working in the background of modernity and modern politics. Shortly after the French Revolution 1789 the new democratic politics appeared 'expressis verbis' as the 'welfare' regime! It resulted into a bloody mess, but welfare subventions can generate the same without blood-sheet.

### **What does this have to do with development?**

It is well known we have still the rich North and the poor South. The modern nation states in the South are not yet fully functioning democratic states and it is well know they are poor and need help. We call this help and support or development aid and development co-operation. It is of interest, we don't call it welfare aid or welfare co-

operation. But before we discuss development we have to analyse the ideal-typical structure of the modern nation state of the south.

A modern nation state of the south is typically only a formal democracy. Most of them are no democracies at all and the others are authoritarian states. There is no functioning division of power, no fully functioning market systems, less independent entrepreneurs and therefore less labour forces. The separation between the political and economic domain is weak or non-existent. Private property rights are not or only weakly developed. Politicians interfere usually uncontrolled in each and everything and are at the same time entrepreneurs. The result is a corrupt authoritarian modern nation state. This is far from new, we in the north want to change this structure by development co-operation and development aid. Help, good governance and capacity building are the buzz-words. Let me first present a ideal-type figure of this modern nation state of the South in comparison with the ideal-type of the north presented above:

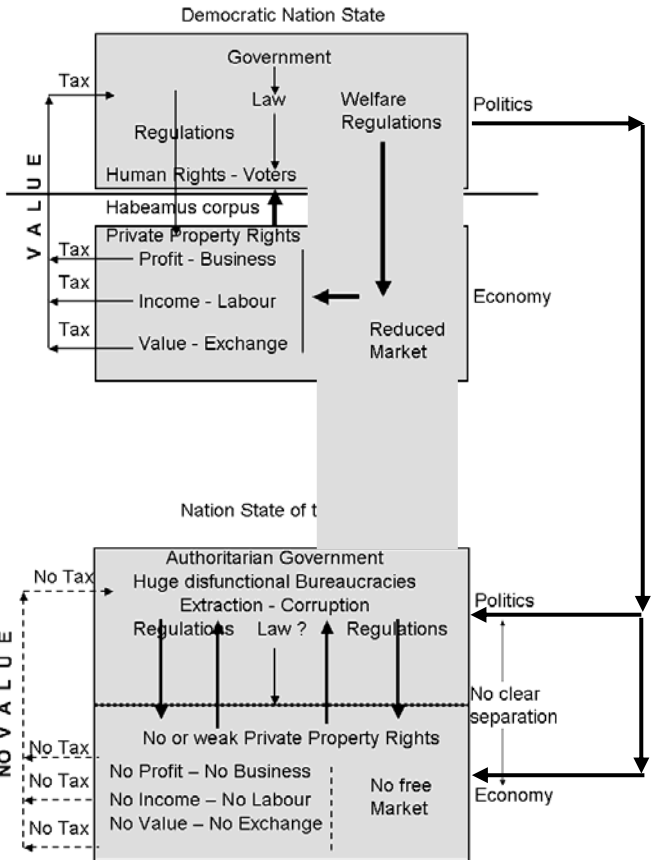


The ideal-type of the south is an extreme, but usual type. Worldwide there is a continuum from the type of the left side to the type of the right side. Immediately one can see the differences between an underdeveloped and an highly developed modern nation state. At the first glance it seems there is nothing to compare, because the situation of this ideal-typical nation state of the south is only a misfitting appearance of the ideal-typical structure of the nation state of the north. But that is nothing new. Development co-operation and capacity building or capacity enhancement is aimed at to change this underdeveloped structures of the south. We know the aim, but how to get it?

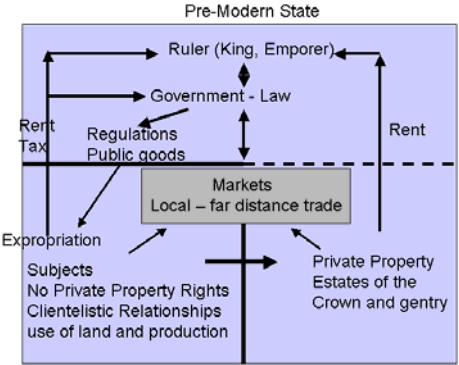
Since forty years development aid and co-operation was guided to help the poor and to support the governments of the south for change. This means the north pumped money and technical support into the economic sphere as well as into the political sphere of these countries. The latest reports from the World Bank as well as from the UNDP offer an alarming message. Besides a handful countries like the 'tigers' in Far east and now India and China there was and is no great development and change. And the success of these handful countries has less to do with development aid, but with the increasing 'independence' of the economic sphere! Something is definitely wrong in the development politics until now. What could be the reason?

My theses: The structure of the intrinsic welfare politics of the highly developed democratic nation states of the north.

Until now development aid and co-operation is mainly a business of the politics of the countries of the north. We have to presuppose that there cannot be another politics for development as the politics which politicians prefer in the countries of the north: To exert political power by welfare politics! I have demonstrated above that this politics interferes heavily in the autonomous sphere of the economy and results into a distortions of the factors for value creation and the principles of free markets. But the societies in the north HAVE the strict separation of the political and economic domain and until now we can survive these distortions induced by the welfare politics, but now we are on the edge. But contrary to this reality in the north the societies in the south until now have no clear-cut separation of politics and economy at all. Therefore development is only operating in the dominating political domain and should increase development; but where and for whom, when there is no autonomous sphere of economics? Let us discuss it in regard to the following figure:



Now we can get a clearer picture what is happening when we compare this development-relationship with the pre-modern structures:

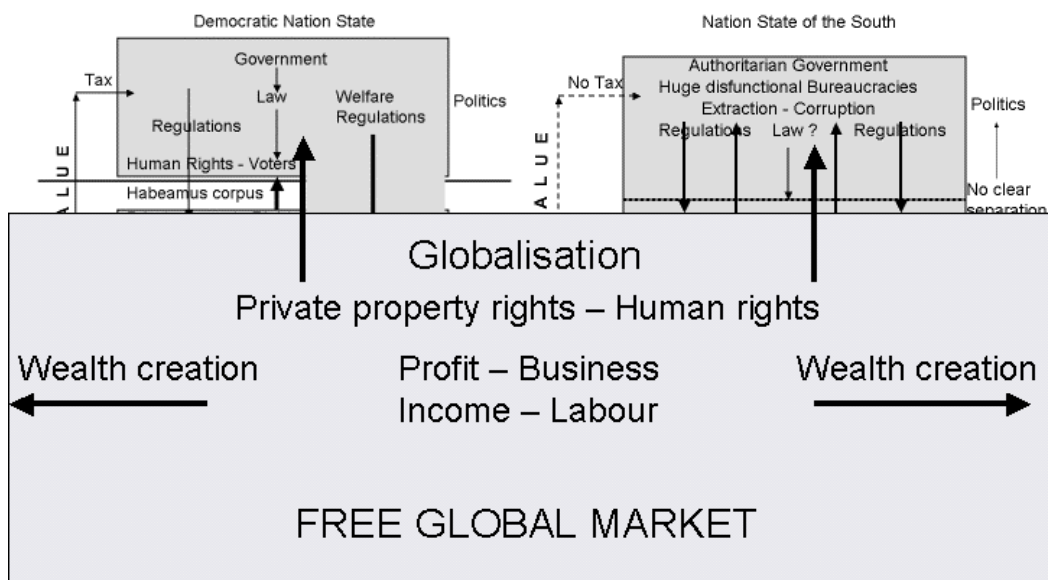


One can easily see that the ideal-typical normal modern nation state in the South is nothing else than a modern version of the pre-modern ideal-type of state. Development aid and development co-operation is only fuelling the old type of extraction and expropriation of values from the subjects. But now the point, and this is very distinct to the former agrarian societies. In the modern nation states of the south there is not much to extract, because the people are really poor! Therefore development aid is only replacing this kind of extraction and expropriation on behalf of the ideal-typical nation state of the south! Without our development business these nation states of the south couldn't survive! And this is really no secret but an explicit cause and impulse for our 'welfare-guided' development aid and co-operation with the governments of the states of the south.

When our development aid would be another kind of support then it could only be another or weaker version of the welfare politics of the modern nation states of the north. Then it should be a kind of subvention to 'stimulate' business, to 'help' the labour force and to 'support' the free market forces. But where in these countries is the business, the labour force and the free market forces? Therefore to help the poor to survive is no help to create business and no help to create a labour force, let alone to create a free market. It is only help for survival. In the same way to help the government will not guarantee that they will change the whole system, because they don't want it and because they cannot do it by lack of resources. Our development aid cannot replace the necessary value generations in the sphere of economics. Therefore we have to ask, what has to be done or to be supported that the outcome of development aid and development co-operation will be something of a true developed modern nation state?

There is only one definite answer: To help separating the political from the economic sphere of actions. But this can only be done when there are free and independent Private Property Owners, independent entrepreneurs and independent labour force and independent markets. Someone who believes politicians of the nation states of the south would do it out of free will is a dreamer. As in the case of the former rulers as kings etc. they don't do it out of free will, politicians must be pushed to do it by the people in a kind of revolution in the same way we have experienced it in the modern European history of the last centuries. I admit, we in the north fear possible struggles and civil wars in the south, but we already have it. Preventing it there is a wonderful and very peaceful solution, but again criticised and nearly hated by our welfare agents: globalisation! Why globalisation?

Politicians in the north and the south complain that the global economic forces are not yet controllable. There is a fear of the decline of the modern nation state, because global economic forces, or better, global markets, don't respect any national boundary, national politics and itself national law. The global economy only consists of global people which belong to themselves, of global private property owners, globally oriented entrepreneurs, labour force embedded in the global market und a borderless free global market for value generation. These are in an ideal-typical view exactly the fundamentals of the autonomous economic sphere of actions, which was the reason for the quantum leap in the history of mankind from pre-modern societies to modern democratic societies with individual voting rights and private property rights. But how is it a solution for the poor people in the south? Before I try to answer this question I would like to mention that it is also a solution of the over boarded welfare system of the people in the north. A figure:



One thing is true: Until now there is no global politics in the sense of a nation state and there are no global politicians in the sense of national politics. The global markets are still free and autonomous. Because no present nation state can escape this forces of the global autonomous sphere of economic actions they all have to learn this autonomy. There is no longer any possibility to interfere again via welfare subsidies despite they try it with all means and tricks via trade regulations, import and export tariffs and so on. The WTO is the best expression for this helpless and sometime ruthless politics of the politicians of modern nation states. But the financial markets are no longer controllable and so will it be with goods and services.

Therefore the best way to help the poor people in the South is to include this people into economic globalisation. Not development aid and development co-operation will help them to improve their conditions, but globalisation. This is documented in a very interesting study undertaken by the World Bank "Trade, Growth and Poverty (2001)" with the message "Growth is good for the poor"!