The Role of Credit Weapon and Income/Wealth Inequality: A Sri Lankan Case Study

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Article's history:

Received 5th of April, 2020; *Received in revised form* 21st of May, 2020; *Accepted* 19th of June, 2020;
Published 30th of June, 2020.

Suggested citation:

Saliya, C.A., Hooper, K. 2020. The Role of Credit Weapon and Income/Wealth Inequality: A Sri Lankan Case Study. *Journal of Applied Economic Sciences*, Volume XV, Summer, 2(68): 425 - 436. DOI: https://doi.org/10.14505/jaes.v15.2(68).15

Abstract:

This research paper shows that credit mechanisms sometimes thrive towards strengthening socio-economic powerbase of the capitalist class and form a mutually reinforcing function, which, from a Marxian point of view, could intensify concentration of wealth aggravating income/wealth inequality in society.

We applied a critical ethnographical approach using the case study research design. Empirical data was extracted iteratively from participants and presented as thick-descriptive case studies. We argue that certain credit decisions enhance the socio-economic power base of influential individuals, making them richer and powerful while ordinary credit applicants are discriminated against by strict application of credit evaluation rules. These observations bolster the Marxian claim that credit systems work as an exploitation mechanism towards concentration of wealth. These findings provide insight for policy formulators to design more productive financial capital mobility systems with the help of state-intervention to minimize credit-oriented exploitation and growing inequality.

Keywords: capitalism; causal mechanism; corruption; discrimination; entrepreneurship; inequality; Sri Lanka.

JEL Classification: G21; G41; P1.

Introduction

Oxfam International Report (2019) revealed that world inequality is greater than was feared and that eight individuals own as much as half of the people on the planet. The wealth concentration is so intense that these eight men possess the same wealth as 3.6 billion people, and this figure is down from 62 individuals a year ago, and from 388 individuals in 2010 (Oxfam 2016). The reasons given for progressing inequality and privileging of wealth are varied and include tax avoidance, political influence, and this paper would add discriminatory lending practices. Credit systems play a significant role in providing the necessary financial capital for enterprises to start, to grow and to achieve economies of scale (Morselli 2019, De Brunhoff 2003).

Many researchers have discussed on the links between poverty, inequality, sustainability, and financial capital and exposed existence of disproportionate access to financial capital and its role in reinforcing discrimination (for example, Wahyuningsih *et al.* 2020, Amaluddin 2019, Thao *et al.* 2019, Aracil 2019, Anthony and Roy 2017, Haber 2004, Saliya 2009, 2019a, Saliya and Jayasinghe 2016a, 2016b, Saliya and Yahanpath 2016, Zhuang *et al.* 2009). These researchers argue that access to loan capital is a privilege mainly to the rich and well connected groups in the society and therefore, less affluent SMEs are at disadvantaged. The Governor of the Bank of England (1999) also asserts that there is a problem of obtaining start-up or early-stage finance for poor entrepreneurs. As a result, this phenomenon could contribute towards widening the gap between rich and poor as argued in this paper.

Concentration of capital denotes reproduction of capital on an enlarged scale, whereas centralization merely supplements the work of accumulation (Marx 1933). Credit or loan-capital provides huge potential power for concentrating capital. However, the mechanics of the credit system – how and why it facilitates concentration of capital – has not been studied sufficiently from Marxist exploitation perspective. Nor have researchers, who often use a Marxian theoretical framework in their inquiries and advocate emancipation from capitalism, paid adequate attention to the role played by credit in concentrating capital. Therefore, this paper attempts to provide insight towards filling this knowledge-gap; the research is from a Sri Lankan perspective.

1. Literature Review

Powell (2008) suggests that encouraging small-business entrepreneurs is the best way to achieve and maintain general affluence. However, many researchers argue that there are not sufficient finance providers for small and medium-sized enterprises (SMEs) and banks are blamed for their dominant role in providing finance to enterprises and not providing adequate finance to small or budding enterprises to start and grow (see Rachid 2019, Stevenson and Pond 2016, Whincop 2001). Quoting from several researchers, Cavalluzzo *et al* (2002, 641) elaborated that owners of small businesses from some demographic groups may have less access to institutional financing. This theory suggests that some demographic groups are discriminated against in their efforts to gain access to loan capital (credit) because they lack certain qualities and factors that are the prerequisites for obtaining credit.

DeBrunhoff (2003) insists that credit systems are also social mechanisms that are structured for the continuous accumulation of capital to its owners. Marx (1933) had already identified this credit system as an emerging new power in Volume II of Capital. Lack of access to credit, as a means of financial capital, especially in the Third World, acts as a road-block for development of SMEs, which contribute significantly to GDP and employment generation in any country. Borrowing is the major source of financial capital for many enterprises, small or large, and it is argued that poorer credit-seekers are neglected. This is a social injustice and Marxism provides a good framework to analyze such social systems and to expose the root-causes of such injustices. Therefore, many critical-finance researchers use such Marxist theories as alienation, exploitation, accumulation, modes of production and hegemonic discourses in most of their inquiries. According to Marx (1933), banks can create credit money without limit, leading to accumulation and centralization of capital (… capital creates capital, that money breeds money, Chapter XXII of Capital Volume II). This process intensifies enhancing the social power of the capitalist class to suppress the working class. Accessibility to consumer credit is higher in the developed world than in developing countries through means such as credit cards, hire-purchase schemes and even for ‘capital nature’ credits such as mortgages and leases for motor vehicles. However, there is a growing body of evidence attesting that access to enterprising finance is problematic, especially to the poor segments of a society, irrespective of the level of development of a country (see Bank of England 1999). According to the Manifesto of the Communist Party, the capitalist class constructs values and social relationships in their own interests using the means of social production, which they own (Marx and Engels 1848).

More relevant to this research, Marxian interpretations inspire empirical and historical research and Marxism has been used extensively to explain inequality or uneven development and, therefore, has evolved through different perspectives, especially addressing its weak points, such as bi-class society and the inevitable victory of the proletariat. Therefore, the privileged position of Marxism as a mode of analysis and interpretation of the capitalist system and its consequences became dominant and legitimate (Jameson 1984).

1.1. Marxism and Critical-Finance Researchers

Marxism has earned vast acceptance as one of the grand theories which tell the story of social history (George 2003), and Tinker (1999) asserts that: ‘… Marxist value theory provides a rich vein of research analysis and practical engagements …‘(p. 643).

Prominent scholars argue that Marxism provides strong lenses for critical accounting scholars. For example, Tinker (1999) uses Volume I of Marx’s Capital to underpin and guide critical accounting; Dominelli and Hoogvelt (1996) emphasize that identifying the problem is a major intellectual responsibility and exposing the roots of exploitation is a precondition for liberation; Dillard and Tinker (1996) insist that bringing structural contradictions into consciousness and to develop them to the highest level of instability is one purpose of critical research. Exposing the roots of exploitation is a precondition for emancipation, Neimark (1990) refers to Marx’s notation that the role of philosophy is not to describe the world but to change it and suggests that: ‘… the aspirations of critical accountants should be no less…‘ (p.111). According to Therborn (1996), Marxism became the theoretical perspective for a generation of radicals who found it the best way to understand social and economic injustice (Tinker 1999).

This reasoning process is based on the Marxist concept of alienation and provides a good lens to investigate techniques and means of protecting and/or strengthening one group of people at the cost of another group in a society. Based on the Marxian theory of alienation, James (2008) argues that, in the contemporary context, capitalism promotes separation of the worker from the whole environment and everything now popularly encompassed by the term ‘commodification of every-day life’ (Dominelli and Hoogvelt 1996, Tinker 1999).

In a study on Third World enterprises, Alawattage and Wickramasinghe (2008) rely on a theoretical framework drawn from Marxist hegemonic discourses to explain the emergence and sustenance of political hegemony as the dominant mode of control in these enterprises. Research on a microfinance scheme in Sri Lanka revealed that post-microfinance incomes have not increased as claimed by its promoters (Shaw 2004). This claim concurs with Marx's interpretation of credit with regard to lenders towards centralizing capital. This type of credit works against the borrower because terms and conditions are exploitive.

1.2. Money Power and Credit Mechanism

Marx ironically describes the power of money thus: The stronger the power of my money, the stronger am I. The properties of money are my, the possessor's, properties and essential powers. Therefore, what I am and what I can do is by no means determined by my individuality. I am ugly, but I can buy the most beautiful woman. Which means to say that I am not ugly, for the effect of ugliness, its repelling power, is destroyed by money. As an individual, I am lame, but money procures me twenty-four legs. Consequently, I am not lame. I am a wicked, dishonest, unscrupulous and stupid individual, but money is respected, and so also its owners. Money is the highest good, and consequently its owner is also good (Marx 1975, 377).

Harvey (2006) argues that Marx's theory of accumulation has for too long been ignored and, using locational analysis, he tries to establish the missing link between the theory of accumulation and the theory of imperialism: the final stage of capitalism. Similar to Harvey's claim, Hein (2002) points out that Marx's discussions of the centralization of capital do not adequately deal with interest. Marx (1972) distinguishes commercial credit from bank credit in Volume III of Capital and assumes that the credit supply of commercial banks can create credit without limits and is not confined to private savings or to internal reallocation of idle funds (see Hein 2002, Lapavitsas 2000). Marx (1972) identifies credit supply as loanable capital that is proliferating but its link to enhancing power of and access to credit (repeatedly) by the capitalist class, in our estimation, has not been discussed explicitly and sufficiently. Therefore, this paper demonstrates, inter alia, how Marx's theories of bank credit and capital accumulation are co-integrated, enhancing the power of the capitalist class while suppressing the working class.

According to Marxian analysis, the distribution of profits between venture capitalists and finance providers is problematic but the accumulation of capital needs both of them (Lapavitsas 2003). Consequently, the banking system has become a crucial instrument that creates a powerful social mechanism for the centralization of capital (De Brunhoff 2003) through exploitation of public funds. Critical analysis shows that pressure from the owners of finance on the management of production is very common. The most common example of this is the a, ointment of bank officers to the boards of directors of heavily indebted customers. According to De Brunhoff (2003):

These directors not only have high salaries, but also obtain important share portfolios by means of stock options or in other ways. And they agree to change the organization of industrial production in order to maximize both profits and financial rewards. This is the objective basis for a coalition of financiers and top industrial directors (p.147). It is common that bank officers sit on the boards of their highly indebted clients in order to look after the banks' interest. Though there is no compelling evidence that they are paid for that service, they often enjoy various other benefits such as fully sponsored holidays, free holiday homes, job opportunities for their friends and relatives and large hampers in the festival seasons. Marx (1978) says, the loanable money capital is no longer passive but active, usurious and proliferating capital. In societies where commodity exchange is widespread, the economic power afforded by money naturally leads to social power.

Marx affirms that the credit system is a 'formidable weapon in the competitive struggle; and in the end it manifests itself as a gigantic social mechanism for the centralization of capital '(1933, 691) which, in turn, results in the enhancement of the social powerbase of the rich. According to this theory of accumulation, bankers may naturally prefer to lend to rich people, enabling them to compete more effectively while eliminating new entrants to the market. In Chapter XXV of Capital - Volume III, Marx asserts that the credit system also acts as a middle-man, facilitating the way for banks to become the general Officers in Charge of money-capital. He argues that 'the bankers confront the industrial capitalists and commercial capitalists as representatives of all money-lenders' (1972, 402). On the other hand, In Chapter XXVII of Capital - Volume III, Marx elaborates on the characteristics of the credit system and argues that it enriches exploitation while intensifying accumulation by collaboration between industrial capitalists and bank capitalists as implied in Chapter XXIII of Capital - Volume II.

2. Methodology

A case study research strategy is used here to explore how one private commercial bank provides financial capital to enterprises in Sri Lanka. In this research, data were extracted iteratively from participants (who had been in the banking system for more than 10 years), and simultaneously, documents such as circulars, management reports, directives issued by the regulatory authorities, annual reports, rating reports, research reports, and newspaper and magazine articles were mined for additional information. Because there were some restrictions on access to data in banks, a retrospective study of several life experiences was also carried out using multiple techniques to make the participants comfortable in this process.

The selection of the two cases discussed in this research is purposively deliberate rather than random (Silverman 2000) because both cases were expected to illustrate a comparative analysis of double standards a, lied in credit evaluation. The case-stories have been constructed as though staging a play, using plot and characters, so that a drama-like description becomes more plausible and interesting to read (Myers 2009). However, maintaining anonymity makes the mechanics of composing the case difficult, and some important background information had to be eliminated (Yin 2003). A Marxian theoretical framework was used to analyze and interpret the case-stories (Saliya 2017). Since one of the objectives of this research is to expose an inequitable and unjust situation, a measure of success or credibility will be how useful the research outcome is in proposing a remedy (O'Leary 2004). Description and justification of the research methods used. Normally, the methods will be selected from known and proven examples. In special cases the development of a method may be a key part of the research, but then this will have been described in Introduction section and reviewed in first one.

3. Case Studies

3.1. Background

There is a popular credit system in Sri Lanka known as Seettu, the pooling of money by a group of people, each of whom in turn enjoys the total amount of money; the order of turn-taking is determined by a lottery system. If anyone is in urgent need of money, he or she can demand a turn offering a discount, which is distributed in proportion to the contribution to the pool. It is similar to a zero-coupon bond where the interest is paid up front.

The perception of the people in Sri Lanka is that informal approaches through connections are more effective to be successful in any venture. Even though only some of the banks are private, the belief that to obtain a credit facility one must have a personal connection remains strong. For members of parliament to issue letters requesting senior officers of various institutions to accommodate their (the politicians') supporters is very common in Sri Lanka.

More than 50 percent of banking business is controlled by state-owned banks; however, powerless poorer groups still prefer private banks for their credit needs as they believe private banks are more customer friendly because the Branch Officers of private banks normally enjoy higher credit approval authority limits than those of state-owned banks. However, patronage towards powerful people is common for all banks, irrespective of their ownership.

The poor in the developed world are not denied consumer credit facilities (credit cards, hire purchase for furniture and appliances and leases for automobiles and so on) if they have a regular income, so long as their earnings are adequate to service those tiny loans. But consumer credit is a luxury to the majority in low-income countries like Sri Lanka. This paper tackles the issue of access to credit for enterprise development. However, the major difference between the credit cultures of low-income and high-income countries is observed as to the nature of patronage they advocate. 'Traditionalism', now termed 'patronage', is common in low-income countries, while patronage (UK) and clientelism (US) are, in a business sense, merely dyadic relationships. Yet there is evidence that poor neighborhoods are neglected for enterprise credit, even in developed countries.

Patronage has been defined as a cultural trait and as a dyadic relationship, a reciprocating mechanism, in which two individuals agree to exchange favors and come to each other's aid when they are in need (Szaftel 2000). In today's democratic environment this 'help' is primarily economic and not considered to be corruption (Roniger 2004). Compared to the developed world, patronage has become a normal ingredient of social systems in the low-income Third World countries, especially in the Indian subcontinent. Clientelism and patronage denote the same phenomenon, with the term patronage being used more commonly in Britain while clientelism is used more in the US (Jayasundara-Smits 2010). It is also observed that patronage, as a form of accumulation, exploitation, allocation of resources is a strong weapon of social control and domination. Jayasundara-Smits (2010,7) argues that one of the reasons for this continued trend in renewed patronage links is the constant dependence of various social forces on traditional benefaction bonds; also, she points out that: '… these relationships have not had always contributed to significant improvements in the overall quality of life of the majority that continued to live under unfavourable structural and cultural conditions in the periphery …' As a result, such traditionally developed patronages promote the socio-economic power base of each other and establish their dominance over the lower classes in the society.

Jayasundara-Smits (2010) also reveals that almost all the respondents in her field research confessed that the majority of the society is helpless in everyday politics and asserts that this dependency syndrome is created by patronage. However, insufficient income, higher risk, lack of collateral and providing guarantors do also play significant roles in credit approval processes according to the credit policy manuals of banks. Jayasundara-Smits says that, during pre-colonial times, in the feudal era under 'kingship', the patronage relations were vertical and 'the contemporary institutionalized form of political clientelism in Sri Lanka is a reincarnation of the traditional patron–client relations of the past …' (2010, 30). During the colonial period, horizontal patronage relationships emerged and these were further strengthened in the post-colonial period. These horizontal patronage ties further enhanced the powers of the bourgeoisie class and the vertical front, the peripheral peasantry and other lower classes were pushed into more hardship in a structurally imbalanced economy.

The CSB Group is owned by a well-known business tycoon, Mr. H. CSB bank is the financial arm of the CSB group. The CSB bank was desperate to canvass new clients as it was running with excess liquidity. Mr. H, the President of the CSB bank, initiated a novel marketing programme to attract his fellow high-class businesspersons and started to become actively involved in lending. The CSB bank President Mr. H was very popular among his friends as a friend in need. With little knowledge of banking regulations such as capital adequacy, single-borrower limits and liquidity requirements, President H. of CSB bank commonly ignored the essential criteria of credit evaluation and acted with an attitude of 'catch me if you can' towards regulators.

3.2. Case Study

Case Study I: Exporting Tea Business

Exporting tea under the brand name, Ceylon Tea, is one of the main sources of foreign exchange earner for Sri Lanka. Tea exports accounted for 2 per cent of GDP and contributed over US$1.5 billion in 2013 to the economy of Sri Lanka. The total numbers of direct and indirect workers exceeded 1 million people. The highest level of tea produced was reported in 2013 as 340 million kg, while production in 2014 was reduced to 338 million kg (Business Times 2015).

Recently the tea industry started facing problems for a combination of reasons and tea prices have collapsed in the order of over LKR100 per kg (Sri Lankan rupees) over the past year while the national average price of tea in 2015 was at LKR404 per kg versus LKR 510 per kg in 2014. The most significant contributing factors for this situation have been identified as falling oil prices leading to less demand in West Asia; conflict both in this region and Russia; unsold stocks; shipping and trading complications due to the war; and buyers taking more than seven months to settle payments (Rajadurai 2015).

Roshan Rajadurai, the Chairman of the Plantation Association announced that the 'situation is now [further] aggravated leading to further accumulation of losses with the average tea prices declining sharply at the Colombo Tea Auction within the first two months of 2015. Prices have slumped below corresponding levels in 2014 (Business Times 2015, para 2), buckling under an avalanche of debt of LKR4 billion last year for the 20 regional plantation companies (RPCs) with losses estimated at LKR6 billion (Rajadurai 2015).

Tea workers' wages were more than doubled a few months ago following union negotiations. However, Mr. Peryasami Muthulingam, director of the Tea Plantation Workers' Museum reports that most companies are making losses (Muthulingam 2016). Due to this high level of losses as well as debts, banks were reluctant to extend further credit to tea manufacturing companies.

The Mandes estate is a tea estate in the middle of the country (low grown) in Sri Lanka, employing over 15,000 workers. Mr Mandes (Mr. M.) was a golf-playing friend of the CSB bank, President H., and they, together with other affluent business people are members of a prestigious Golf Club. They all belong to the elite circle in the social network of Colombo. Mr. M. was the owner of The Mandes Tea Estate (which was affected badly by severe drought coupled with increased wages, increased power and fertilizer costs).

Mr. M.'s main problem was that he was not getting adequate green leaf to allow the factories to work at least at break-even capacity. One fine golf-playing day Mr. M. casually discussed his problem with the CSB President and was able to win empathy for the desperate situation of his business and the devastating situation of the workers. He convinced the President that a slight rainfall would resolve all his liquidity problems. The following day the CSB President called for a meeting with the Deputy General Manager Credit (the DGM) and advised her to look into the situation. By this time, The Mandes group was indebted to many banks and had pledged all his business assets as collateral. Therefore, credit officers of the CSB Bank had already rejected the formal credit application of Mr. M., based on an official credit-default investigation report and the situation of the tea industry.

The total liabilities of the Mandes Group to banks were more than US$10 million. Due to substantial overdue-interest, the banks had classified The Mandes Group as a defaulter and had reported this to the central monitoring authority for defaulters. Yet, President H. assessed Mr. M.'s claim as a business development point of view and a, roved US$2 million at once.

The newspapers reported that the CSB Bank was a truly helpful bank. President H. was ha, y and the board members were convinced of two things; first that the President had rescued a business with 15,000 workers, and he was helping the tea industry which was, at one time, known as the spinal cord of the Sri Lankan economy.

Eventually, Mr. M. defaulted and the regulators directed the CSB Bank to make full provision for many such unsecured loans, including Mr. M.'s (who had not serviced the loan for three months), together with the unearned interest which had accumulated in the interests-in-suspense account. The CSB Bank was in trouble, profits slashed and their liquidity position was not up to the statutorily required level. The share price plummeted almost by 50 per cent and small shareholders suffered. Resulting negative publicity could not be stopped and the bank nearly faced a 'run situation' (withdrawal of deposits prematurely due to loss of public confidence). Then the Central Bank of Sri Lanka quickly intervened, removed the whole board of directors including the President H., and handed over the management of the CSB bank to the B bank, the country's largest bank.

Case Study II: The Taxi Business

Mr. Sarana (S.) was a rural peasant and both his parents belong to the Kumbal caste, mean 'Clay-Pot-Makers' (treated as one of the lowest castes in the caste system in Sri Lanka). Many regions have separate areas called Kumbal Goda (Clay workers' village) in an isolated corner of the region. They make clay items during the week and bring them to the weekend fairs in towns to sell. In later times, they have realized the value of education and now there are professionals such as medical doctors that belong to this caste. Mr. S. did have education up to high-school level but was helping his parents make clay items and was without proper employment. He decided to run a Tri-Show (aka Three-Wheeler; aka Tuk-Tuk in India) which is the most popular private transport mode in every part of Sri Lanka, mainly due to their low fares. The Tri-Show can carry only three passengers excluding the driver. The price of such a vehicle was around LKR300,000 ($3000). He a, roached almost all the banks to lease a Three-Wheeler but without success, mainly because banks wanted additional securities and guarantors.

Due to the fact that he was significantly alienated because of his social status, it was impossible for him to find guarantors acceptable to the banks. The bank officers did not even care to prepare realistic cash flow statements for him to assess the repayment capacity of his taxi project. Finally, he had to confine himself to his traditional profession, clay-work, and start to accumulate his wealth slowly.

His ambition was so strong however, and he decided to try another avenue by acquiring a different set of skills. He attended the regional technical college to follow motor mechanics course, specializing in Three Wheelers and motorcycles and completed it with much enthusiasm. He was contemplating setting up a mechanical workshop for Three Wheelers and motorcycles targeting the lower-middle class. Mr. S. again a, roached banks to get the initial capital to set up a workshop with minimum equipment and the key money for suitable premises in the town. Although he is a talented motor mechanic, because of his caste, the formal credit application of a mere LKR100,000 ($1000) was rejected for the same reasons; no guarantors, no adequate equity and no tangible assets to offer as collateral.

Then he started a very small workshop specializing in Tri-Shows and motorcycles in his own home garden, almost 2 km away from a small town. The cost of his services was very reasonable because he did not have overheads. Therefore, he became very popular among the target clientele, who were also from the poorer castes in the town. Though his business boomed, he lacked the accounting expertise to prove evidence of his cash flows and still lacked any accommodation from banks. Thus, he could not expand his business and bring his workshop into the city where he could enjoy a wider clientele market. Arguably, if he were from an 'acceptable' caste, his story would have been a different one and he may have had a leading workshop in the town. It is argued that he was deprived of this mainly due to his outcast status, social exclusion and alienation.

4. Discussion

The credit decision in Case I provides evidence of exploitative use of depositors' funds in the CSB Bank for the purpose of capital accumulation of a fellow capitalist. It also shows the abuse of regulatory directions and ignoring proper banking procedures for the same purpose. The borrower used his civil powers to induce the bankers while the President used his powers to convince the board of directors to authorize the credit line, without proper credit appraisal, which is a form of exploitation of public savings.

The evidence observed in this research brings structural contradictions into consciousness. These cases identify the problem and deep analysis of it might help to expose the roots of exploitation as a precondition for liberation. In Case II, where the credit applicant was neglected, brings the alienation process to the surface and underlines the increasing importance of intellectual systems (Dillard and Tinker 1996).

Both case studies provide evidence to substantiate the claims discussed in the introduction to this paper; the access to start-up or early-stage finance for disadvantaged groups in poor neighborhoods is a problem. Mr. Sarana in Case II is from a 'disadvantaged group' in a 'poor neighborhood' and access to credit was truly a problem for him. This research adds to a growing body of evidence to the argument that there is an interrelationship between status-based lending and the economic power of richer classes. This means poor and powerless groups are alienated in the provision of credit because they lack certain qualities and factors such as money, social inclusion and networks, which are effectively prerequisites for obtaining credit.

The criticism of banks for their dominant role in providing finance to SMEs (Whincop 2001) is also substantiated by the case-study stories in this research. Banks, when run under autocratic leadership, especially where normal systems and processes are disregarded and management is weak, put small credit applicants such as Mr. S. in Case II at a severe disadvantage.

Case study II provides verification for alienation, discussed by James (2008), where agents discriminate against or deny the rights of one group of people to protect and/or strengthen another group in society. The fundamental human right to credit (Yunus 2007) was denied to Mr. S., who was desperate to start his business and to prosper. Mr Sarana's record proved his courage and enterprising skills. What he lacked was the social status or membership of at least an ordinary social network to su, ort him in accessing finance capital when he was in need.

In the Mandes case study, the credit facilities were granted casually, on a personal basis, without following the normal credit policies and procedures of the bank. Favorable credit decisions like this help the borrower to remain in the market doing 'trial and error' businesses, masquerading as 'successful' businesspersons and enjoying such government concessions in business development programmes as long-term land leases, export-promotion incentives and tax advantages. Not all applicants, however well connected, may enjoy such outcomes, but the prevailing ethic enables industrial capitalists to accumulate their wealth even though they and their loans are classified as 'bad' by banks. The loans are serviced with further borrowings. De Brunhoff (2003) argues that owners of small savings are passively involved in the process, while the ownership of financial assets is highly concentrated in the hands of a few wealthy people, including some industrial capitalists.

These case-study stories substantially confirm the claims already documented that most individual, social–cultural and economic–political factors are collectively directed towards protecting the social power of an advantaged class of the capitalist society (see Saliya and Jayasinghe 2016a, 2016b also Saliya 2019a, 2019b). Social power in numerous functions are intertwined with money, and such economic power ultimately steers to social power. Therefore, social power becomes the fundamental driving force for decision-making based on preferred social norms in the state and private institutions, particularly in the finance sector. 'Money is the monopolist of the ability to buy, or in Marxist terminology the 'universal equivalent …' (Lapavitsas 2003, 70-71). Case I provides evidence to strengthen the argument that, as a result of favorable credit decisions, influential groups of people could become richer and more influential. They have the ability to obtain credit and such class relationships seem mutually reinforcing. Based on these cases, we theoretically argue that there is a propensity to make credit decisions based on associations when the credit applicant is socially and economically powerful. According to Saliya (2019b), such lending decisions for the connected are made by abusing legitimate authority overruling the normal banking practices of credit evaluation. This process of privatizing gains and socializing private losses is a clear win-win situation for capital and a lose-lose for everyone else (Foster 2008) – especially the taxpayers.

Conclusion

The findings of this research are useful in optimizing understanding of the credit mechanism, its contribution to disproportionate exploitation of resources and some discriminatory aspects of credit decision-making in the Sri Lankan banking industry. The CSB bank crisis showed that crony capitalism, which facilitates the exploitation mechanism and enables the credit mechanism to work mainly for the rich, is not sustainable. Such credit mechanisms, which cause enormous waste in resources and ignore the need for nurturing potential projects, are not just.

While the cases evidenced reveal a credit culture in Sri Lanka that has a structural bias that favors the wealthy, it can be argued that the cases in themselves are not sufficiently conclusive. Further, it can be argued that the poor are, by definition, credit-risky, and they lack collateral assets and incomes. However, the cases draw out another factor, which is in line with Marxist thought: connections. Society is structured to privilege those with connections.

Individual traits are super-structural. Structure plays a vital role in shaping one's motives. According to Marx, structure is class-based and the President, a powerful capitalist, tactically hooked other socially powerful individuals into his social network which, in turn, boosted his own socio-economic power base. While it is true the poor without connections represent a high risk for lending, as the capitalist argument exemplified in this paper maintains, the claim that thousands of jobs depended on further credit being provided is disingenuous. It is a disingenuous claim because such privileging preserves the status quo and stifles collective self-determination. It also diverts finance into weak industries.

Finally, Marx observed that, although there is a human drive to cooperation, many are alienated because capitalist social relations dispossess the majority of producers. The paper has shown how such dispossession may occur within the context of the provision of credit to enterprises. As such, the privileging of connected parties is detrimental to the economic well-being of the general population. This situation frustrates the poor entrepreneurs. Nor it is, in any way, just. These findings provide insight for policy formulators in developing policies for more productive financial capital mobility systems in Sri Lanka. The conclusions of this research emphasize the need for radical changes in the system of credit allocation for SMEs. It is suggested that state intervention in regulating enterprise financing could minimize such credit-oriented exploitation and growing inequality. Conclusions must have wider perspective-implications for other broader areas and domains. Future Work and Outstanding Questions must arise from Conclusions.

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