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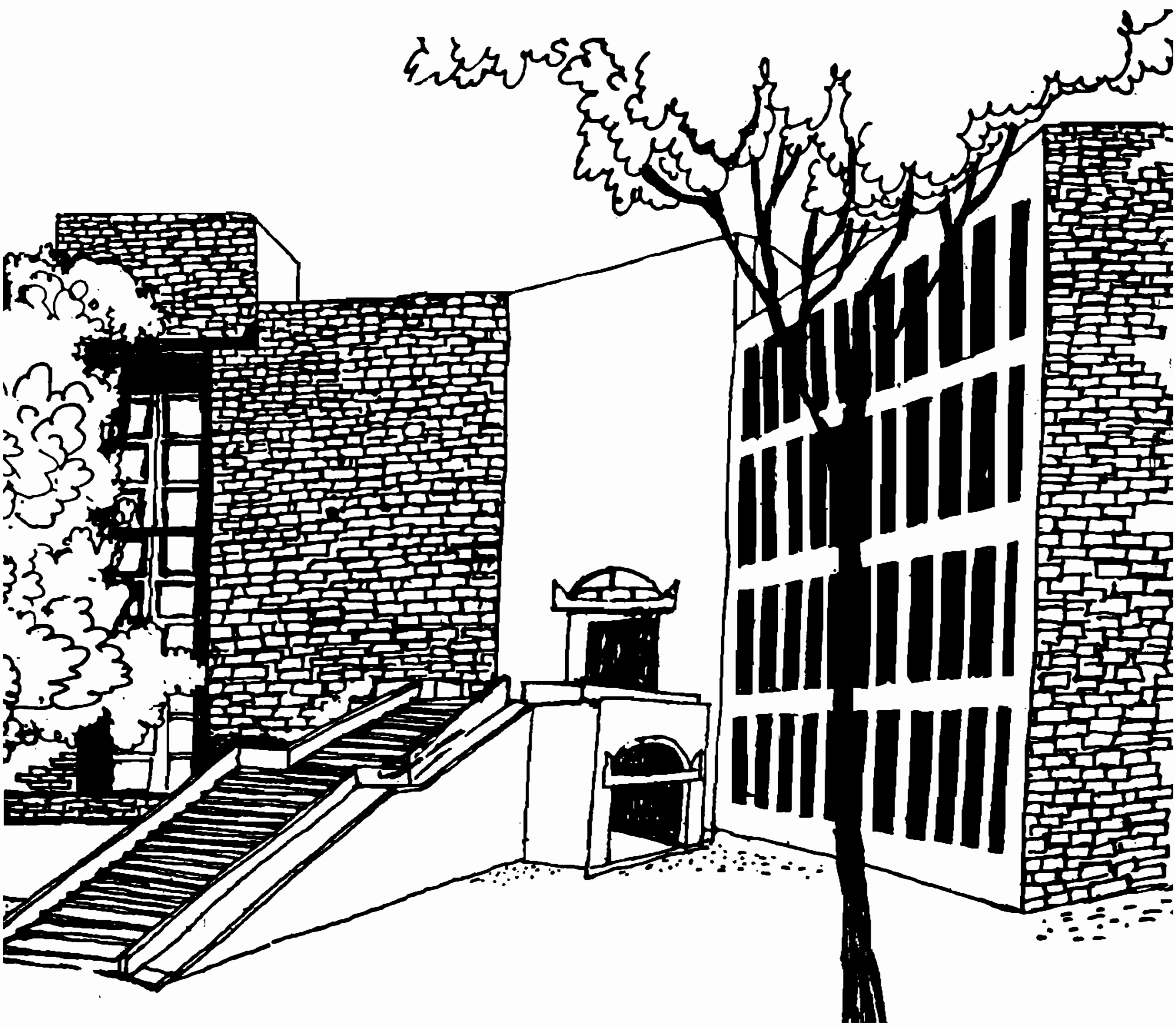

POLICY AND THE PROBLEM OF POLICY CHANGE: SOME ISSUES

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Policy and the Problem of Policy change: Some Issues

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Introduction

The liberalisation of the Indian economy which began in the early eighties has now accelerated. The content of the reforms announced in 1992 go far beyond what increased aid and loans from the World Bank and IMF would have entailed. It is no longer possible to see the liberalisation as purely a response to the balance of payments crisis. While effective policy as such has changed more slowly than what the initiatives and intentions would indicate, it is nevertheless true that the pace of change has been rapid, and as never before since the crisis of the mid-sixties in the Indian economy.

There is much discussion about these initiatives in the popular press as well as in business and academic journals. Yet the responses and stances of most scholars have been rather predictable. Most, but not all, left intellectuals have vehemently argued against the current initiatives particularly in their equity aspects, and have warned that under the guidance of the Fund/Bank India can go the Latin American way. Some have even argued that the policies of the eighties were in fact designed to bring the Indian economy to the current (im)passe so as to ensure the liberalisation of the economy under the Fund/Bank auspices!

Intellectuals closer to the government have on the other hand argued that the system of controls (and subsidies), and in general the superstructure of economic governance and policy had long become dysfunctional, having little bearing on the economic reality either as it exists today, or as has existed in the immediate past. They would argue that discretionary and bureaucratic control of the economy would have to go, to be replaced by price based measures and eventually to be removed altogether. They have also argued for a trimmer and more efficient public sector, for privatisation of particular sectors, for a concentration of the public sector in its traditional infrastructural areas, and for throwing open sectors hitherto reserved for the public sector to the private sector. Licensing, with the obvious distortions that it has brought about not only in the industrial economy of the country but also in the political process, as well as the meaninglessness of much of the provisions of the MRTPA (until its recent amendment), are all supportive evidence in their agenda for change. The high growth of the Indian economy in the eighties, which none can now deny[1], has certainly provided the confidence to government and policy makers pushing for change. On the other hand scholars outside the government but not all necessarily left-wing have characterised the high growth during the eighties as being import and luxury goods led, as furthering inequalities, and as leading to a dependence of the economy to the detriment of its long term prospects for industrial transformation.

The developments in 1990 and 1991 leading to a severe balance of payments crisis may have reduced the ability of nationalists within the groups arguing for change to maintain the distinction between liberalisation on the external front (on international trade in goods and services, investment and technology, and finance) and liberalisation within the economy (de-licensing, attenuation and removal of controls, roll back of the state, reform of the public, and financial sectors, etc.)

The collapse of 'socialism' in eastern Europe and the erstwhile Soviet Union have certainly effected the conduct and content of the debate. The events therein necessarily open up, like unhealed wounds, particularly for the left, the questions of viability and desirability of Soviet style

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[1]R. Nagaraj (1990), "Growth Rate of India's GDP, 1950-51 to 1987-88: Examination of Alternative Hypotheses", Economic and Polictical Weekly, June 30,pp.1396-1403.

'socialism' in the LDCs. It also puts the left on the defensive, and has given the right the upper hand in economic and political debates. Today, rightly or wrongly, the onus is on the left to argue (and 'prove') its case.

The discussions have found little common ground and have yet to come down to an empirical level wherein the hypotheses and fears on both sides are posed against facts. To a student of the Indian economy the following are some of the many possible questions that arise when the liberalisation agenda had become irresistible:

Some important issues that arise out of the present debate

1) Is Latin America really relevant. Is the experience of Latin America and some of the African countries, where it is now quite clear that Fund/Bank guidance have brought about BoP adjustment only with great cost in terms of growth and equity, valid in the Indian case? There are obvious differences between the two situations. The regular cyclical growth and collapse of the economy were features of Latin American development even before World War II and may not be unrelated to the large amounts of capital flight from these countries. The question really harks back to the arguments against the underdevelopment school that countries like India can hardly be placed in the same

category with the Latin American. Somehow, Latin America has proved incapable of retaining the surpluses it creates during boom periods for domestic investment. Even gross underestimates[2] of capital flight, would show that capital flight from Latin American countries, particularly during periods of recessions have often been in excess of, or comparable to all capital inflows. This means that despite the relatively high level of developement of the economy (as indicated by the sectoral occupational patterns), the unambiguous breakthrough into an advanced capitalist economy is thwarted. Capital flight in these countries takes place as the very rich in these countries have consistently choosen to transfer their earnings abroad to spend and save, since their racial and cultural affinity with Europeans and Americans makes this possible. No wonder, these countires have been for long in the unenviable position of Tantalus, while others from Asia (Japan, Korea, Singapore) and Europe (Italy, Spain, Portugal), besides the 'socialist' countries have come from behind to overtake them. The Indian elite in sharp contrast, but quite like the Asian elites in Korea, Japan, Thailand, China or elsewhere (but perhaps not Philippines), would hardly find it possible to integrate with the

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[2]Cf. Table 1 of Manuel Pastor Jr. (1990),"Capital Flight from Latin America", World Development, Vol.18, No.1, pp.1-18; or Table 2 in Dieter Duwendag (1988),"Capital Flight from Developing Countries", Economics, Vol.38, pp.26-59.

advanced west (since racial and cultural differences stand in the way), so that capital flight from India could never reach the same order of magnitude as from the Latin American countries or the Philippines. More importantly capital flight from India would tend to be strongly correlated with the economic policy and situation, and can potentially be reversed[3]. The essential point is that suitable growth promoting policies has the potential to reverse permanently the bulk of capital flight from India. It is quite revelant here, to note that the Chinese bourgeoise based in South and East Asia, is a principal if not dominant source of foreign capital for mainland China now that China itself is growing very fast under liberalisation.

2) Currency depreciation and terms of trade losses. Fund/Bank prescriptions to devalue have been much criticised for their neglect of the (compositional) effect of devaluation in a number of countries at the same time leading to a competitive collapse of natural resource product prices, and hence the large terms of trade losses

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[3]The ratio of capital flight to foreign borrowing for India, (Dieter Duwendag (1989)) for the period 1970-83 was very high (approx. 40%) rivalling that of Latin America. This may seem to belie the distinction between India and the Latin America drawn in the text. But we would still maintain that the while the capital flight from India is essentially for economic reasons, that from Latin America has a social and cutural basis as argued in the text.

which have only hurt the LDCs further. Yet India with little (or negative) net exports of natural products[4] may perhaps not face the same situation under devaluation as the LDCs in Africa and many in Latin America which are large exporters of natural resources. Indeed when the potential for manufactured exports (given the wide diffusion of modern technology through much of Indian industry, and the low costs), is high, currency depreciation may very well be vital to economic performance and faster growth. Beyond the rhetoric there is little evidence to show that currency depreciation (more correctly correcting the bias against exports, and creating a positive bias for exports) does not work to increase manufactured exports[5]. If anything the recent experience would, to even a casual observer show that manufactured exports have indeed responded to currency depreciation in dollar terms at a time when demand factors have acted

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[4]Ratio of exports of natural resources to their imports has averaged about 65%, and has sometimes been as low as 40%, since 1969.

[5]The repsonse of Indian exports to policies like currency depreciation or devaluation that seek to remove or lower the bias against exports would not come up against the limitations of the 'one-price' assumption pointed out by Lance Taylor and others. (Cf. Lance Taylor (1983) Structuralist Macroeconomics, Basic Books, New York). Given the great variety of Indian manufactures, there always is a set of products whose exports are constrained by the lack of remunerative prices abroad in relation to domestic market realisation.

adversely against Indian exports[6]. LDC's exports more so the manufactured exports of the NICs have suffered significant terms of trade losses,[7] but on that basis to argue that manufactured exports are either irrelevant or not desirable in the process of industrial transformation, would be invalid. Historically, all countries that have industrialised via the capitalist mode do show a declining terms for their exports particularly when they are directed at the already industrialised nations. This is the inevitable tribute that the late industrialising countries pay to the already industrialised for access to the latter's markets. Manufactured exports have a vital role because they help to overcome the demand constriant, and provide for scale and scope economies through which technological upgradation and productivity growth takes place. This means that successful industrialisation via a dependence on manufactured exports, is accompanied by barter terms of trade losses while there are income terms of trade gains.[8]

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[6]Dollar exports to the hard-currency areas in 1990-91 increased by over 10%, even as the exports to the Eastern block declined due to developments quite external to the economy. Their slow growth in the year 1991-92 can perhaps be related to the severe supply interruptions and constraints during the year.

[7] See for instance Box Fig. 5.5(b), World Development Report, 1991, World Bank, Washington.

[8] Even developing countries as a whole have made large income terms of trade gains, since 1965. (Ibid.) And these are due largely to the dynamic NICs.

3) Manufactured exports and land man ratios. Land (and resource rich countries) USA, Canada Australia, Brazil, Indonesia can afford to make do with little or no surplus on manufactured goods, but not India for which Korea and Japan holds the mirror in which we may see India's future on this score. Japan exports five to six times as much manufactures as it imports, Korea four times, against the UK and the US which today export less or only about as much as they import. India in the sixties (at levels of income about fifty to a hundred times less than that of the US) was already exporting about as much manufactured goods as it was importing[9]. Long back, and certainly since the Mahalanobis period had brought about a diversification of the economy by the mid-sixties, we, unlike most LDCs with whom we tend to be classed are a net importer of raw materials and natural products! If even the moderate growth of the eighties has to continue we have to ensure manufactured exports. In other words manufactured exports are vital for India not so much to be able to import capital goods, as to import natural materials.

4) State direction Vs. laissez-faire. The Fund/Bank thesis that "open" economies have generally grown faster has been criticised on conceptual, methodological and

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[9] The World Tables 1989 of the World Bank shows this.

empirical grounds[10]. Others have argued that if anything the recent experience of growth particularly of the East Asian economies shows that it is high quality state intervention in all aspects of economic development including an active intervention on the trade front that underlie their success. Despite these criticisms the Fund/Bank have continued to be guided by such laissez-faire thesis. Indeed the Fund has increasingly become 'monetarist' in its approach. The left in India while always calling attention to the extent of state intervention in Korea and other better performers such as China, have not generally recognised that the nature of state in India would impose limitations in terms of the quality and the extent of its intervention, and hence of what is feasible.

5) 'Internal' and 'External' liberalisation. In the fast pace of change the potential for a liberalisation of production structures within, and yet for a shielding of the economy with a view to retaining and increasing domestic value added has perhaps not received due attention. With a severe BOP crisis, out of which the

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[10] A meaningful concept of "openness' would have to adjust the trade/gdp ratio for the dependence of this ratio on structural factors of size, and stage of development. Outward orientation in the sense of manufactured export promoting regimes (not laissez faire) does show a positive relationship with growth, particularly in land scarce economies.

economy has only temporarily surfaced, the option of pursuing structural liberalisation within - delicensing, privatisation, etc., while still maintaining controls on capital movements, may become increasingly difficult to pursue.

6) Factors of growth in India. The impact of liberalisation on growth is not quite clear. The traditional determinants of the performance of the manufacturing sector in India namely good agricultural harvest, increased public investment and relaxation of infrastructural constraints, may very well have underlined the good performance in the eighties[11]. In condemning the increased growth in the eighties the left has been quite hasty, as much as the others have been in drawing support for their liberalisation policies from the performance in the eighties.

7) Employment growth, wage rates and equity. Since the mid sixties employment growth in industry has been tardy[12]. And even in the eighties despite good growth in output it is apparent that employment growth in the organised sector (excluding the public sector) has been woefully inadequate.

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[11] R. Nagaraj (1991), "Increase in India's Growth Rate", Economic and Political Weekly, April 13.

[12] Planning Commission "Employment Growth in the Eighties", mimeo, 1990.

Employment growth in the public sector seems to be a dysfunctionally autonomous process with little bearing on either output and productivity growth, and on capital formation in the sector. Thus, the problem of employment is one that goes beyond liberalisation. Yet liberalisation and particularly policies, that can bring down real wages in the organised sector while increasing public and private investment, have the scope for accelerating employment and bringing down the capital intensity of that sector. The unorganised sector, where the wages are low and militancy entirely absent, despite capital and policy constraints, has absorbed labour at a rate that has exceeded four per cent per annum[13]. This fact points to a rather complex relationship between liberalisation (with its possible wage reducing effects in the organised sector, particularly under Fund/Bank auspicious) and the potential for the employment growth, a complexity which is hardly evident in the debate. In the context of growth, static equity considerations are devoid of meaning. Equity has to understood in terms of employment growth, and especially so in an LDC like India where there is still large disguised, and open unemployment. Wage increases particularly of those

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[13] The "middle sector " viz the all non household manufacturing employment (as per the Census data) minus the Census Sector of the ASI grew at this rate. Mridul Eapen and A. Vaidyanathan (1984), "Structure of Employment in Indian Industry: Some Findings from Census Data", Centre for Development Studies, Working Paper No. 199.

in the organised sector can only be of secondary consideration at this stage of development of the economy. Successful twentieth century industrialisation whether of the dynamic NICs or the 'socialist' economies has been based on low wage rates, until such time as the disguised unemployment is overcome. Yet it is not clear that the debate has recognised the complexity, nor the true significance of this historical fact, and the inter-temporal aspect of the equity question.

8) Poor performance of India. Many of the South East Asian economies whether well endowed with natural resources (eg. Malaysia, Indonesia), or not (South Korea, Taiwan, Singapore, Hongkong), and others in a more intermediate position (the Philippines, Thailand) are better growth and employment performers than India. They may well be better performers even in equity -certainly true of South Korea, Taiwan and Singapore- than India, despite their authoritarian regimes fully wedded to capitalist growth. Even Sri Lanka has shown better growth performance than India. All of them have done far better than India in terms of physical quality of life indicators too[14]. India despite the notable achievements during the Second and Third Plan periods, and the rhetoric of 'socialistic pattern of

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[14] Cf. Social Indicators of Development, 1991, World Bank.

society' has been a society with much inequality and low growth. (Inequality in India may be much worse than what is generally believed if the incomes, and the rents the very rich earn were truly included for the estimates[15]). Only in comparison to war-torn Indo-China, obscure Burma, and the South Asian countries does India's performance in Asia seem respectable. The need for change therefore can hardly be disputed, and so the debate about the content of the changes becomes very important.

Indian 'narodniks'. The left and the Indian 'narodniks' (under which we might include Gandhians, Lohaites, alternative-development schools, many of the conservationists and environmentalists, non-marxist radicals of various shades) have easily made the dichotomy between growth and equity: There is an enormous literature in India that sees growth as disturbing, as affecting the poor for the worse, and as bringing about social inequity. The wide spread acceptance of such a thesis among intellectuals and activists alike is no doubt due to the slowness of Indian growth, which has made the beneficial effects of grrowth less observable, while the adverse effects on the poor marginalised sections (poor slum and

[15] There are various estimates of 'black money' in India. Whatever the correctness of these estimates, no one would deny its increasing size. Official NSS data upon which utimately all income inequality estimates are based totally misses out the really rich.

pavement dwellers in the cities, tribals in areas subject to ecological and other dangers) are certainly glaring.

High speed growth. High speed growth (as in Korea, China, Thailand and Taiwan to a great extent, and to a lesser extent in Malaysia) has certainly meant that even the poor gain, so that the Indian left and the 'narodniks' if they looked beyond the experience of India, and recognised the achievements of East and South-east Asia generally, cannot afford to ignore the desirability and the feasibility of high speed growth in India. With China having grown at a searing pace of about 8% for now nearly a decade and a half, it is hardly possible to argue that large countries like India have to accept relatively slow growth. In Korea where investment rates have been very high, and disguised unemployment eliminated by the early seventies, the inequality of consumption expenditure (which is the relevant measure) has been less than of income. Indeed if much of profits are invested to create employment opportunities, and increased wage rates, the notion that surplus value (profit) is at the cost of exploiting labour while quite true technically, may loose much of its political and social implications during the phase of high rate of capital formation[14].

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[14] Until the late seventies (real wages started rising in Korea in the mid-seventies), most working class Koreans outside Korea were highly critical of the regime in South

'Transformation' rates of growth. More importantly, we are led to the notion of 'transformation rates' of growth. Countries which have industrialised late have grown at faster rates than the early industrialising to catch up with them. Does this mean that the LDCs when they are on their way to industrial transformation today (in the late twentieth century), necessarily grow very fast; and therefore slowly growing LDCs (say below a certain empirically determined rate) are not really transforming themselves into industrial societies?

'Demographic' transition. From a population perspective, it is well known that the demographic transition is brought about at a certain level of income which is much above India's income today. The beginnings of the transition may well be at two to three times India's present real income, if the studies from India and other Asian countries are any indication. Growth at low rates (up to a percent or a half above population growth rates) can postpone indefinitely or considerably slow down the demographic transition , keeping much of the Indian

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Korea, while being sympathetic or ambivalent towards the North. As the facts of the North have become better known, and as South Korea has continued to grow rapidly, while the North itself has stagnated, attitudes have changed. The current agitation for democracy in Korea is entirely political and does not question the basic logic of capitalist transformation that Korea has undergone.

population very poor. Fast growth on the other hand, particularly when accompanied by an agrarian revolution (greatly increased agricultural production that follows type II land reforms[17]) much above population growth rates, in raising the modal income brings about the demographic transition, so that the poverty trap and all the ills that go with it are overcome once and for all. To put the argument in a nut-shell, <u>the empirical evidence would indicate that the escape route from underdevelopment is to grow very fast on a sustained basis, and anything else may prove ephemeral</u>.

<u>The left and high speed growth</u>. Today when the left has either put aside "high speed" growth or has refused to see the vital distinction between "high speed" growth and the sluggish growth that characterises much of the LDC

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[17] Type I and type II land reforms are very meaningful categories as they were used in the context of Japanese development experience; and may be used fruitfully in discussions on densely populated Asian economies. Type I land reforms where the overlords on land (zamindars, feudal lords etc) are overthrown have been found to be insufficient for the industrial transformation of these societies. Japan carried out such reforms as early as in the late 19th century. India, immediately after independence. Type II land reforms entail the transference of land to the actual tiller. This was carried out in Japan and Korea under the US occupation after WWII. India still awaits its type II land reforms. The categories of type I and II land reforms are from R. P. Dore (1965), "Modernisation of Japan: Land Reform and Japan's Economic Development", <u>The Developing Economies</u>", Vol.3, No.4, December, pp.487-496.

experience, they are denying the spirit of their own tradition which always argued for growth and the release of productive forces. Indeed the marxist arguments for the transition from feudalism to capitalism, and from capitalism to socialism are essentially based on the need to break down the barriers that stand against productive forces and the proclivity of the system to do so. With the benefit of hindsight it is possible to conclude that the 'socialist' states of the USSR and Eastern Europe were on the ascendancy until about 1970 or so, because of their essential functionalism in bringing about high speed growth, that clearly was able to successfully transform these societies into industrial, whatever may have been the political and social costs, and without an essential dependence on external markets. When the same political and economic structures within these societies proved incapable or grossly inefficient in bringing about the further transformation to an advanced industrial society, they collapsed or had to be given up. Poor performance of the agricultural sector in the USSR, since the late-sixties, while important is only a specific aspect of system failure. When the task of industrial transformation is still on going in China, the functional need for capital formation, at a high rate to make possible the continuance of "high speed" growth, means, that the Chinese state's centralised direction, and increasingly so via the market and not in contradiction to it, has relevance; and to that extent chinese 'socialism' is still 'acceptable'.

Thus it would indeed be strange if the left were to come close to the "narodniks" in arguing against "high speed" growth. Then they would have to live with the contradiction of pushing for social and political changes, and yet preventing the fructification of their essential precondition viz economic transformation.

Limitations of radical politics. Concievably, the left could argue for radical political change of the type brought about by the October Revolution, in India, and to depend upon the new society to carry out capitalism's unfinished tasks. But its own experience (including that of the so-called 'naxalities'), now for about fifty years would indicate that:

(1) The state still commands great legitimacy, and so the insurrectionist-putsch strategy of Lenin is only a remote possibility.

(2) The long-march strategy of Mao while seemingly feasible, given the wide disparities in rural India, may also not really be so, due the rather numerous class of 'rich' peasants (and even the 'elites' among the poor who have access to the State's bounty in the form of IRDP type

grants and loans), who have gained under the present system; and the lack of a tangible equivalent to China's Japanese invaders.

(3) The growth of the 'middle' class has been quite rapid, so that today their role in politics is quite important, and can be a crucial barrier to the success of radical politics.

(4) Perhaps, more importantly the left's performance itself has been very poor: The left's strategic blunders in supporting the British war effort during the Second World War, its tendency to divide itself based on the ideological battles in the USSR and China, its petty bourgeois orientation which has prevented the dominant streams within it (the CPI and the CPIM) to organise the unorganised workers, have proved most damaging. The left has all along only competed for the organised workers' attention who have little potential for the kind of radical political action necessary for socialist revolution, since like the English workers commented upon by Marx and Engels (particularly), they do constitute a privileged section who may stand to loose a lot more than their 'chains' in the event of a radical transformation of state and polity. The large masses of the unorganised workers (whose interest could very well contradict with the organised workers), with revolutionary potential, remains a divided lot, easy victims of divisions along caste, religious, and communal

lines. The few movements for change among them have been largely localised, so that the state has found it very-easy to contain and manage them. It is only the agricultural labourers, and that too in a few areas with high growth (coastal Andhra, Punjab, Haryana), and in Kerala who have been organised, but their struggles have as yet to add up to anything worthwhile in national political terms. In contrast broad based fronts of landlords, rich and middle peasants, have been quite successful in coopting the small peasants, and have found national political expression as the following and success of peasant leaders like Charan Singh, Sharad Joshi, and others would indicate.

(5) The left as also centrists parties like the Congress have not been able to read the undercurrent of strong nationalism among the Indian people. Their attention has fallen short on the very visible quarrels along language, creed and caste lines. The result has been that Hindu chauvinist groups were left free to give their own interpretation, and perhaps even the form to this undercurrent. The BJP/RSS's ascendancy is based on their ability to address this strong and as yet unformed nationalism and only superficially on Hindu militancy. They have of course attempted to give a Hindu form to this nationalism which certainly goes against the real interest of not only the religious minorities but also of the Hindu majority. The point is if a centrist party like the

Congress or even the left had recognised this strong undercurrent and addressed it on inclusive terms, the present enchantment of the people with the BJP and its allies would not have come to pass, and the state could well have had the greater autonomy to pursue growth with fewer distractions.

<u>'Revolutionary 'praxis' and nationalism</u>. It is understandable and not at all strange that left movements that have succeeded (ignore the 'revolutions' in Eastern Europe that were to a large extent imposed upon by the Soviet state)- China, Cuba, Vietnam, Russia, were all based on the recognition of nationalism as an autonomous force; quite against the grain of the 'pure' left ideology. Abstract marxist theory in not recognising nationalism as a force autonomous to class struggle is to that extent unreal and distanced from policy and praxis, particularly today in a world of competing nation states, with vast differences in their level of well being and development.

Only when the slogan workers of the world unite was defacto interpreted as workers(poor) of Vietnam or China unite did revolutions succeed. The slogan has always been and continues to be one that abstracts from the essential reality of competing nation states. Only at special junctures such as post WWI did the idea in the sense workers of Europe unite have some meaning. The quite obvious observation that the workers of say the USA (however enlightened and educated in the correct ideology) have little in common with the vast masses of the poor and starving workers of say India, was denied systematically by marxist theoreticians[18]. Growing evidence of racial attacks by white workers of non-white (immigrant and other) workers, and the fact that the workers from the advanced capitalist countries were at the forefront of protectionist campaigns against imports from the LDCs, never made it far into the cognition of marxist theoreticians. Even while the underdevelopment school, as well as the world systems approach, which built upon the notion of an essential asymmetry (between nation states and regions) leading to uneven development, the basic marxist framework of value theory was not quite questioned: The value theory in the form that Marx presented, can hardly be valid for open economies with the possibility of surplus transfer across national boundaries, and hence for the possibility of workers in the advanced capitalist countries benefiting from the 'monopoly' position of the national capitalists. Emmanuel's work[19] points to the 'unequal' exchange between nations, but its implications for the praxis (there is little basis for workers of the world coming together) is

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[18] Cf. Ernest Mandel, "On the Revolutionary Potential of the Working Class", c1976.

[19] A. Emmanuel (1973), Unequal Exchange, Monthly Review Press.

not well appreciated. Nor are its profound implications for the theory of exploitation widely recognised. Indecd one can hardly afford to retain the marxist notion of exploitation without bringing in essentially the idea of 'exploitation' across nations. This would mean that marxists rethink their idea of a fundamental contradiction between capital and labour in the present context.

The right and high speed growth. The right, as also the state in India has shied away from consistently aiming for high speed growth. Near high speed growth was achieved during the 'Mahalanobis period' i.e. 1955 to 1965, and again in the eighties, when in several years growth in fact exceeded plan projections. The state in India has been particularly sensitive to the interests of the middle classes. It has always preferred to put the brakes on the economy, rather than allow inflation at levels higher than about 12 per cent to accompany growth. Despite the rhetoric that inflation hurts the poor, the fact that all kinds of parties including the extreme rightist and extreme leftist have consistently agitated against inflation is indicative of the fact that most parties do draw significantly upon the middle classes for the support and organisation, and the voice of the poor remains unarticulated except in terms provided by the middle classes. High speed growth even when accompanied by inflation (of the type seen in the transforming economies of South-east and East Asia), because they are accompanied by labour absorption and the dissipation of disguised unemployment is pro-poor, but could conceivably go against the middle-classes: organised workers, rich farmers, salaried employees of the government, while benefitting the investing and entrepreneurial classes.

The above perspective would lead us to believe that the current liberalisation would be constrained by the balance of class forces and the nature of the state so that in all likelihood it would sacrifice growth for 'low' levels of inflation; public (and private) investment for public and private consumption expenditure, particularly the latter. Already there has been a severe cut on public investment expenditure, while current consumption expenditures have been hardly reduced. Hence the onus is on the government to argue that liberalisation would not reduce growth in the medium term.

The enchantment with the East Asian model on the part of the government pushing for change, and of liberal scholars has not yet translated to a systematic and consistent programme of action: While many would agree with them that the quality of state intervention in India has been poor and costly, and has increasingly tended to be dysfunctional, and therefore in need of an overhaul, the other vitally necessary conditions for a successful transformation, obtained in those very east-asian societies, have been brushed aside: We would like to call attention to two very important social questions -land reforms and the behaviour of entrepreneurial capital.

<u>Land reforms as a capitalist strategy</u>. It is well recognised that type II land reforms were obtained in these rather densely populated societies, along with agricultural output expansion at about 5%, while they moved on to high speed growth. It allowed the absorption (in Korea for example) or as much as 80% of the increased industrial output between 1965 and 1979, during the height of the 'export-led-growth'. Can India really achieve high speed growth on a sustained basis without land reforms? Today we know that the Mahalanobis type of planning could not be pushed far because inter alia one of the necessary conditions for success viz. land reforms, and following from it increased agricultural output were not obtained. <u>If liberalisation is about bringing the industrial transformation (at high speed growth), then liberal scholars, and the Government would have to at least answer the question of how the home market is to grow.</u>

Thus far, the state in India has refused to see (beyond of course the rhetoric) type II land reforms as a necessary (certainly in densely populated societies) condition for the <u>capitalist</u> transformation of society. State intervention (in the form of the public sector and close guidance and supervision of the private sector), thus far, we may now safely agree, were restraints accepted to attempt a capitalist transformation in the ideological world of the fifties and the sixties, despite the rhetoric of 'socialistic' pattern of society, and the pubic sector occupying the 'commanding heights' of the economy.

When the strategy could not be pushed far because the necessary conditions like land reforms and a high level of public investment were either not there or could not be sustained, the strategy had to be given up; with much slowness no doubt. We may characterise the period from 1965 right up to 1979 as one of anomie. Attempts at liberalisation during this period were feeble and had to be quickly reversed. Two wars, the naxalite upheaval, a serious of poor harvests, emerging fissiparous tendencies, and the complex balance of class and regional interests that the Indian state represents, meant that it could hardly change direction as quickly as in Korea and Taiwan, or even in China, where the autocratic rule of the party means that a battle won within the party is a battle won nationally.

The beginnings of liberalisation in the eighties found a nurturing environment in the growth of the eighties, but we can hardly say that there is a political consensus to pursue liberalisation even within the Government, not to speak of the nation. Yet the opposition to liberalisation seems to have come only from rather small (but vociferous) sections of society, pointing to the possibility that a consensus could be forged if the section of the elite pushing for change were driven more by the national rather than sectarian interest, and had the political will to arrest the eroding legitimacy of the state, and most importantly to bring about land reforms, while forcing Indian capital to be competetive.

<u>The Indian state in contrast to the east-asian state</u>. Central to the East Asian model is discipline. It is by now well recognised that a disciplined labour force is vital to the pursuit of industrialisation, particularly in its external market orientation; and that the state's role in bringing about this discipline was crucial. What is less understood and appreciated is the state's role in disciplining the entrepreneurial classes and firms, which had the effect of ensuring that much of the surpluses were in fact invested leading to the virtuous circle of

growth.[20] Terms of access to finance and more so its centralised allocation, the functionality of which was ensured by the discipline accepted by firms, was also vital to the success of the state's direction at very low cost[21]. There was little or no diversion of funds provided by the state to more privately remunerative activites, but with little potential to increase societal growth.

The Indian state is contrast has found direction of the economic effort far too costly. Only partly is the high cost attributable to the kind of instruments[22] it has chosen to use: direct and quantitative controls, and bureaucratic and administrative management, in contrast to working via the market and through incentives and prices. That these dysfunctional and/or costly instruments have to change is widely appreciated. Much of the higher cost

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[20] Careful scholars like Mrinal Datta-Chaudhuri have made this point early, but it has taken its time to reach the cognisance of many others. For a recent comphrehensive and eclectic study see Alice Amsden (1989), Asia's Next Giant: South Korea and Late Industrialisation, New York, Oxford, Oxford University Press. Mrinal Datta-Chaudhuri, "Industrialisation and Foreign Trade: The Development Experiences of South Korea and the Philippines", in Eddy Lee (ed.) (1981), Export-Led Industrialisation and Development, International Labour Orgainisation.

[21] This is also true of Japan. For the case of Korea see Chung H. Lee (1992), "The Government, Financial System, and Large Private Enterprises in Economic Development of South Korea", World Development, Vol.20, No.2, pp.187-197.

[22] The instruments of governemental control have been the focus of attention in many inquiry committees, and in the studies by concerned scholars.

apparently arises from the state's very nature-its inclusive rather than exclusive character. Thus while the public sector were closer to models of efficiency and effectiveness in Korea, in India, the emergence of the illegitimate need to serve many masters, has taken them far from their primary task of leading the society through its industrial transformation. Well designed institutions and methods for resource allocation, monitoring and direction have been 'corrupted' and rendered dysfunctional as hidden and not so hidden agenda, beyond growth and transformation, have emerged, given the accommodative politics of the state.

The efficiency of the bureaucracy is much attenuated and it can be a significant drag even when the politics unambiguously demands change. The Indian state's limited capacity to direct the market cannot simply be seen as one of widespread graft and corruption. Neither is the question exclusively that of the right policy.

Indeed our argument would be that a worthwhile policy would have to recognise the limitations that emerge from the nature of the state, and build upon the unique spaces and opportunities that it creates for action. The content of policy alone is incomplete. The explicit or implicit state action that is necessary for its implementation would go along with the content of the policy to characterise it.

There is no doubt danger here: If we interpret feasibility narrowly, wouldn't we quite obviously end up supporting the status quo? It is here where a true understanding of the nature of the state, and of its potential for change, and of the spaces it creates, or could create with political leadership, vital. No doubt one can learn much from the specific instruments and content of state economic policy and the 'market-friendly' direction of the economy in Korea, China and elsewhere. But serious application of policies and evaluation of alternatives, not only for governments but also for its critics, can begin only with an understanding of the Indian state with all its dynamics.

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