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A Note on the Political Economy of the 'Retreat of the State'*

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Policies such as privatisation of State-owned production units, reduction of State expenditure especially on subsidies and transfer payments, and removal of State controls in various spheres, which have been so much in vogue in recent years all over the world, are commonly perceived as constituting a 'retreat of the State', a movement towards laissez-faire from State interventionism. This perception, shared alike by both the protagonists as well as the critics of such a shift, is however an erroneous one. The U.S. State, for instance, notwithstanding all the Reaganite rhetoric, has (apart from running huge fiscal deficits), continuously shored up the American financial system, made increasingly vulnerable by debt-exposition.[1] And the exchange rate at which Tory Britain plans to join the European Monetary System has nothing to do with a 'free market equilibrium'; it is a choice on the part of the State dictated by the interests of the City. Even in the fiscal sphere, where tax-cuts have accompanied welfare expenditure cuts everywhere, there is obviously a specific redistributive design at work, a specific kind of intervention embedded with the so-called 'retreat' by the State. In short, the blanket term 'retreat' by the State, is a gross misnomer. What we are witnessing is a transition from one paradigm of State intervention to another. This transition is not merely a shift from one technique of State intervention to another; still less is it a shift in *abstracto* towards laissez-faire. It has an exceedingly important class-content.

This shift, in general, is designed to bring about three important consequences: first, a weakening of the working class vis-a-vis the capitalists (so much so that many American economists see Reaganomics essentially as a strategy for raising the rate of surplus value[2]), secondly, a considerable centralisation of capital, i.e., driving out or absorption of small capitals by the large, and thirdly, a strengthening of financial interests relative to manufacturing interests within the capitalists themselves. I use the term 'in general' while mentioning these consequences because the progress of different economies along this path of transition has been uneven; and even for particular economies, the progress has been marked by complexities, so that the need arises for transcending the empirical level; besides, as we shall see later, the consequences of this transition for developed and

underdeveloped capitalist economies, are vastly different, and to understand that difference, a preliminary general discussion is in order.

The questions that immediately arise are: are these three consequences mutually compatible? And how do they follow from the package of policies that are usually associated with the so-called 'retreat of the State'? To see the connections clearly let us visualise a highly simplified world consisting of workers and capitalists (both industrial and financial), in which the workers consume whatever they earn and the current account of the balance of payments is balanced. Profits would then equal the sum of investment, capitalists consumption and the budget deficit.[3] Let us first consider the case where the size of the budget deficit remains unchanged, but within this unchanged size there is a reduction in welfare expenditure ('the social wage') matched by an equal amount of transfers to capitalists via tax-cuts. Since a rupee spent on welfare expenditure generates a larger direct and indirect demand than a rupee transferred to the capitalists (who would save a part of it), even this unchanged budget deficit would lower the level of activity and employment in the economy while leaving the amount of post-tax profits unchanged.

With this reduction in the level of activity, however, less money will be required in the economy for transaction purposes, so that the banking system will witness either a reduction in the demand for credit, or a substitution of cash-deposits by term-deposits, entailing in either case a loss of income. Contraction of activity in other words is, from this point of view, against the interests of the financial oligarchy.

Privatisation of State-owned production units, on the other hand, has a counteracting effect. At first sight, such privatisation appears merely to substitute one form of private wealth by another, namely private claims upon the State by titles to actual physical assets. Suppose, for instance, the State sells the equity of public enterprises and uses the proceeds to retire treasury bills held by the banking system. It would appear at first sight that the private sector's wealth does not increase as a result at this swap. Even in this case, however, this switch in the form of wealth holding is profitable for the private sector, and especially the banks. If private holding of public sector equity is financed by bank-credit, from the banks' point of view it means the substitution of say Rs. 100 of credit for Rs. 100 of Treasury bills. Since the former fetches a higher interest rate, this substitution is a profitable one.

But, the main point about privatisation is that it involves the sale of public sector equity at considerably less than its market value. It does, therefore, involve an increase in the wealth of the private sector, an increase which is handed to it *gratis* by the State. Now, to the extent that the banks directly hold a part of this equity, they share in the bonanza. Even if they do not directly hold any of this equity but finance through credit the holding of such equity by others, they would extract a cut from this bonanza by charging higher interest rates on such credit (and hence by implication on all credit.)[4] Not only, in other words, do banks gain from privatisation through the

substitution of high yielding assets (equity or loan against equity) for low-yielding assets (government securities or Treasury bills) even when State equity is sold at its market value, but, what is more, since such equity is always sold below market value, they also gain from jacking up interest rates.

Such jacking up, to be sure, would have a further recessionary effect upon the economy, adversely affecting the demand for credit for other purposes; but clearly as long as the amount of State equity sold is considerable, and the difference between its scale price and market value sufficiently large, banks (and the financial oligarchy in general) would be net beneficiaries from a package of policies involving tax cuts, welfare expenditure cuts and privatisation of State assets.

They benefit, moreover, in yet another way. We have seen above that when the magnitude of the budget deficit remains unchanged but its constituent elements change, total post-tax profits remain unaltered even through the activity level declines. This decline obviously affects the profits of some capitalists, but others gain so much that the total profits remain unchanged. Even in this case, in other words, there is a redistribution of profits within the capitalists, away from some and in favour of others. Typically, needless to say, the redistribution is away from the small capitalists and towards the larger ones who are the prime beneficiaries of the tax-cuts.

When the budget deficit itself is cut, or when investment is cut on account of the higher interest rates enforced by the banks in the wake of such a policy package, the magnitude of the total post-tax profits declines. Even this decline, however, has an uneven impact. Since in conditions of recession it is the small capitalists with less staying power and less efficient equipment who go under, it is really their profits which get wiped out; the profits of the larger capitalists are not affected to anything like the same extent. In such a situation, a transfer of assets takes place, away from small capitalists towards either the creditors directly which happen to be the banks, or larger capitalists whose purchase proceeds go towards paying off the creditors. We thus not only have centralisation of capital, but, usually, enhanced economic power of the financial oligarchy. To be sure, when the creditors themselves happen to be the relatively smaller banks, many of them go under together with their debtors. But, even in such a case the beneficiaries are the large banks who get their clientele at least, if not taking over their business *in toto*. Thus, the problem of reduced business for banks on account of recessionary conditions that were mentioned earlier, is a problem really for the smaller banks. The large ones with staying power not only do not face such a problem, but even do well out of a recession engineered by State policy. And finally, if the recession in the sphere of production is accompanied by speculative booms in the sphere of real estate or non-reproducible assets or scarce commodities, as usually happens and has indeed been happening, then the financial oligarchy does even better. Since in their case the State is usually ready to come to the rescue in the event of a liquidity crunch, they are less concerned about engaging in speculative activities.

It is the workers who are the main victims of such a policy package. Unemployment, apart from affecting the living conditions of a section of them directly, has the effect of sapping their bargaining strength and decimating their organisation, the trade unions. What is more, unemployment which can be caused by *any* reduction in State expenditure, is caused in this particular case by a reduction, specifically, in welfare expenditures and transfer payments to the workers, which again affects both their living conditions directly, as well as their bargaining strength. The workers thus face a double attack, either of which alone would affect their lives and their strength adversely, but both of which together constitute a severe blow.

The policy package of an engineered recession through welfare expenditure cuts, tax-relief for the rich, and privatisation of State assets therefore, ensures far greater subordination of the working class to the dictats of capital, leads to greater centralisation within capital, and particularly strengthens the financial oligarchy which reaps the benefit both of a higher interest rate as well as of enhanced speculative activity. Indeed, the greater subordination of the working class which is one of the instruments used for controlling inflation, is also beneficial for the financial oligarchy, since inflation, as is well known, is against rentier interests; the interest rates on loans, to be sure, can be inflation indexed, as indeed they have been in recent years, but bringing down the rate of inflation is even better from their point of view.

These consequences of the new policy package are not accidental phenomena. They constitute the very objectives of this package, which is why to call it a 'retreat of the State' is so very misleading.

Why then, it may be asked, has the term 'retreat of the State' gained currency? The ideological perspective within which the proponents of a policy change present their argument is, no doubt, never isomorphic with its real content, and this perspective often sets the terms of the debate. Nonetheless, the wide prevalence of this perspective even among the critics does need explanation. And a tentative one is, perhaps, the following.

The transition from competitive to monopoly capitalism was, as Lenin had argued long ago, associated with the emergence of an interventionist State.[5] To buttress the domestic position of monopoly capital and to expand the economic space available to it internationally, pervasive intervention by the State in economic life was essential. Laissez-faire, if it ever did exist, had to give way to State intervention.[6] Thus the association between State intervention and the dominance of finance capital got firmly fixed as an idea. And when in the post-war period, there was a tremendous expansion in the scope of State intervention, through Keynesian demand management, it was automatically assumed that this expansion entailed a further escalation in the dominance of finance capital. This precluded the possibility of any recognition that finance capital could well be dissatisfied with the type of State intervention that came into being in the post-war period, and could

enforce an alternative economic regime. When the economic regime did change, it could not therefore be seen for what it was, namely a shift designed to subserve directly the interests of finance capital, but was recognised in only descriptive terms as a 'retreat of the State'.

It is now obvious with hindsight that post-war State intervention differed qualitatively (and not just quantitatively) from what Lenin had written about. It represented a *concession* by finance capital at the time (which admittedly of course was in its long-term *political* interests), rather than the establishment of a regime directly subserving its unparallelled dominance. The so-called 'Welfare State' represented a *concession* by finance capital rather than its *triumph*. Given the socialist challenge internationally and the strength of the working class movement domestically, metropolitan finance capital, shaken by the Great Depression, the War and Decolonisation had to willy-nilly accede to the new dispension for preserving its overall hegemony. Large social security expenditures, a heavy dose of progressive taxation, the enlargement of the State sector, and the maintenance of high levels of employment, are never to its liking, since they inevitably entail a break-down of the discipline essential for the system (high wage-claims are one example of this insubordination, this breakdown of discipline), and undermine its position both socially (the State sector puts paid to the myth of the social need for capitalists), as well as ideologically (the Welfare State goes against the capitalist maxim 'you shall earn your bread with the sweat of your brow, unless you happen to have private means').[7] It was to be expected, therefore, that finance capital would sooner or later attempt to jettison this economic regime and re-establish one with its unalloyed hegemony (though even Kalecki, the most acute observer of the scene, thought that the regime had come to stay, but finance capital would enforce periodic 'political business cycles'[8]). And this is precisely what has come to pass. The 'retreat of the State' is a retreat from the commitment to the Welfare State and high or near full employment. Instead of a seemingly non-partisan State, standing above classes and acting in the 'interests of society'' we are now witnessing a transition in the capitalist world to a blatantly partisan State, intent on smashing trade unions and winding up the social security system.

The obvious question which arises next is: how did metropolitan finance capital muster the social support necessary for this regime transition? This question in turn has to be broken into two separate questions: how was the initial social support mobilised? And how does it continue to retain the social support necessary for the perpetuation of a regime that, we have seen, should have a palpably adverse effect upon the workers, petty-producers and small capitalists? The general answer to the first question would consist of at least three elements: first, it exploited the populist opposition to the State that always exists among the petty-bourgeoisie, and which was heightened by a perception that the Welfare State rested on heavy taxes imposed upon it ('we-are-paying-hard-earned-money-to-support-the-louts-the-blacks-the-wogs' syndrome). Secondly, the contradictions of having a capitalist system without

the discipline that goes with it become apparent to all. A 'humane capitalism', or a 'welfare capitalism' as dreamt of by Beveridge or the New Deal. Theorists or several of the Keynesians is a contradiction in terms. The system operates by holding over the workers' heads the 'threat of the sack' which ceases to be a threat in conditions of near-full employment with large-scale social security. Aware of this contradiction, Keynesian writers advocated a 'wages and incomes policy' to go with full employment, and Social Democracy made it a part of its official programme, inspired by the Swedish model. But, once the failure of this bit of corporativist social engineering had become evident, within the confines of the capitalist system, a regime-change jettisoning full employment and the Welfare State as social objectives, appeared to many as the only way of introducing a degree of coherence into its functioning. In other words, the immanent contradictions of 'Welfare Capitalism', together with the exhaustion of reformist efforts at finding solutions for them, paved the way for the regime-change we have been discussing. Thirdly, matters really came to a head with the inflationary upsurge that started in the late-sixties. The contradictions of post-war State intervention manifested themselves most acutely in the phenomenon of inflation. Inflation entails shifts in income distribution; it introduces tremendous uncertainty in a system based on monetary contracts; in addition, it has a peculiar psychologically debilitating effect, as Professor Hicks has argued;[9] even if the price of one's product keeps pace with the general price-level while one adjusts one's own price once in a given period, every other act of price-rise by the others appears to be directed against oneself, so that even if one is not a real loser, one thinks that the world is ganging up against one. To be sure, the unemployment that was sought to be created as an antidote to inflation was no less painful or debilitating; but the petty-bourgeoisie was more concerned with inflation at the time than unemployment which was supposed to effect only the workers who in any case 'deserved to be taught a lesson'.

As for the second question, why this social support continues, partly no doubt we are talking of a mistaken identity. Support for a government ushering in a regime change, on extraneous grounds such as the Falklands War, the Grenada invasion, or the virtues of 'family life', does not signify a continuity in support for the regime-change itself (And the U.S. under Reagan in any case went in for a debt-financed boom rather than any harsh deflation). Indeed, such Governments started looking for external triumphs (e.g. Bush's desperate pre-election attempts to provoke a confrontation with Iraq) to divert attention from internal economic disaffection.

But the more important answer lies elsewhere. In discussing the adverse consequences for the workers and small producers of the economic policy change, we had confined attention earlier to an isolated capitalist economy. But a metropolitan capitalist economy is far from being an isolated one. In its concrete operation, it can in fact 'export' much of these adverse consequences abroad, especially to the peripheral economies. Thus,

centralisation of capital would occur, but this centralisation may not be so much at the expense of domestic small capitalists, as at the expense of capitalists, small or large, in the peripheral economies. An engineered recession would control inflation, but the magnitude of domestic unemployment may be quite small if primary commodity prices for the third world producers fall drastically even with a limited recession. In short, once we look at capitalist economies in their inter-relationship, while the analysis presented earlier remains valid, its implications need not remain confined to the metropolitan domestic economies. Indeed, within the metropolitan domestic economies the adverse consequences of the policy change can be kept in check as long as outlaying peripheral economies can be made to become recipients of such consequences.[10] A precondition for this is breaking down their autonomy, which had been acquired through decolonisation, forcing their States to abandon the post-war model of interventionism. The Reagan administration was absolutely insistent on it, and has in fact succeeded in forcing 'economic liberalisation' all over the third world through the intermediation of the IMF and the World Bank.

This is the appropriate point for passing on to a discussion of the Indian situation. In the Indian case, while the pressure from the IMF and the World Bank for a regime-change away from Nehruvian State interventionism towards 'economic liberalisation' has been very much there, it would be patently false to close one's eyes to the pressure from the domestic monopoly capitalists for a change along similar (though not necessarily identical) lines. And the factors behind the build up of this pressure have been in many ways analogous to those operating in the metropolitan capitalist economies.

To be sure, Nehruvian State interventionism did not represent a *concession* or a retreat by the domestic large capitalists. Unlike their metropolitan counterparts, they needed such interventionism, not just for political-strategic reasons, but for their very coming into being. Hemmed in earlier by the constraints, of a colonial economy, and striving to carve out a space for themselves in the teeth of opposition from metropolitan capital, they needed State intervention for their survival and growth, as a bulwark against metropolitan capital. No doubt, they would have been happier if State intervention had been even more favourable to them, if the State, for instance, having pioneered enterprises, had handed these over to them, as happened earlier in Japan or contemporaneously in Pakistan, rather than retaining a permanent public sector. But, on the whole, they were willing to go along with the economic regime, even while putting pressure for more concessions for themselves. On the other side, the State that came into being as a result of the freedom struggle, even while promoting capitalist development, could not show itself to be blatantly partisan towards monopoly capital. Even as the latter gained both absolute and relative strength, it continued with its rhetoric of socialism, its stance of standing above classes and 'carrying society forward' even by imposing curbs on monopoly capital, and made concessions and provided transfers not only to

the landed rich, but also to broad sections of the peasantry, the working class, and even, to a minuscule extent, to the rural poor. In short, 'national interests' were never officially made identical with the interests of any particular social class. And in this particular respect, notwithstanding other differences, there was something in common between post-war State intervention in metropolitan countries and the post-independence State intervention in the Indian economy.

The basic contradiction faced by the latter was also in a sense similar to that in the former. Just as the Welfare State and near-full employment are incompatible with the continued hegemony of finance capital in metropolitan economies, like-wise the promotion of capitalist development involving a relative strengthening (and indeed a 'hot-house' growth) of monopoly groups is incompatible in a peripheral economy with the continued existence of a regime that swears by 'social justice' and has occasionally, on however limited a scale, got to live up to this pretense. The problem in either case arises not merely because monopoly capital, once it feels strong enough, jettisons the arrangement. That of course is true; but the problem goes much deeper, namely, the contradictions of the arrangement, quite objectively, make the functioning of the system increasingly more difficult, which is that makes it possible for monopoly capital to acquire the support needed for jettisoning it.

The crucial form in which these contradictions manifest themselves in an underdeveloped economy like India is a fiscal crisis of the State, which can have any one or a combination of four consequences: a profit inflation, a balance of payments crisis, a reduction in State investment which pulls down private investment as well and hence lowers the growth-rate, and lastly, the imposition of income deflation measures on particular social groups, e.g. the peasantry (via adverse terms of trade movements) or the working class (via a wage-freeze).[11]

Both profit-inflation as well as income-deflation for the workers or the peasants, however, undermine the pretense of the State that it stands for 'social justice', and hence cannot be pursued in an unrestricted fashion within this arrangement. The balance of payments crisis, requiring resourse of IMF-credits brings external pressures for jettisoning the economic regime on which more later). A slowing down of the growth-rate through public investment cuts makes large capitalists dissatisfied with the economic regime owing to the constriction of their accumulation possibilities. They begin to look for an alternative economic regime so that they can utilise other accumulation possibilities: thus, the removal of controls on domestic capital is demanded with even greater vigour since it allows the tapping of unfulfilled demand for a variety of luxury goods, and also permits an expansion of large capital at the expense of the small (centralisation); privatisation of profitable state sector units is welcomed for providing yet another avenue for expansion; curbs on workers' organisations and workers' wage-claims are sought to be enforced, together with currency depreciation,

as a means of getting on to the external market; tax-cuts are demanded along with cuts in welfare expenditure, and in subsidies to other classes, as a means of keeping up the profit-rate and yet ensuring that the State maintains its investment in infrastructure; and a degree of openess to foreign technology is advocated as a means of getting on to new markets. In short, as in the case of the metropolitan economies, monopoly capital in the periphery too begins to demand that the State be more pronouncedly partisan, that the other classes, in particular the workers and petty producers, including the bulk of the peasantry, be excluded from exerting any influence on the direction of State policy.

The real difference between the two contexts, those of the developed and the underdeveloped economies, lies elsewhere: the social weight of the bourgeoisie, especially the monopoly bourgeoisie, in the latter is not substantial enough for them to enforce a regime-change *without the support of metropolitan capital.* As a result, the new economic regime that does come about is not necessarily identical with the one that monopoly capital would have liked to enforce. And the main difference lies in the sphere of what has been called 'external liberalisation'. What metropolitan capital demands via the IMF and the World Bank is not selective import liberalisation, or selective opportunities for foreign investment, but an 'open door policy', namely that it be treated on a par with domestic capital itself, which inevitably entails encroaching upon the latters' extant economic territory. The transition demanded, and enforced, is not one from Nehruvian State intervention to an alternative regime of State intervention in favour of domestic monopoly capital,[12] as in the case of the metropolitan economies, but to a regime of State intervention in favour of monopoly capital in general, both domestic as well as foreign, in which the foreign element inevitably constitutes the dominant component.

We thus see a switch: of the State acting as a bulwark against metropolitan capital (notwithstanding concessions to it) getting transformed into a defender of its interests against the domestic working masses; of the monopoly bourgeoisie defending (to a degree) the national economic space with the support of other classes against the encroachment of metropolitan capital getting transformed into an accessory to an 'open door policy' towards metropolitan capital despite the opposition of the working masses. This switch, constituting as it does a reversal of the process of decolonisation, has naturally raised the question: is the big bourgeoisie comprador? This however is a false question. The fact that the big bourgeoisie performs a somersault has to do neither with any psychological traits, nor with the nature of its business activity; it has to do with the historical constraints within which it operates and the limited range of the strategic options available to it. It goes along with Nehruvian State interventionism rather than striving to establish its direct and exclusive hegemony over the State because that is the best it can do under the circumstances; and when the contradictions of such a regime become acute, it seeks the support of

metropolitan capital for a regime-change, even though in the process it has to give concessions undesirable from its point of view, because that again is the best it can do under the circumstances. In the new dispensation, as metropolitan capital would begin to take over the 'commanding heights' of the economy, it would be forced to act as a junior partner, or even as petty rentier (petty from the point of view of metropolitan capital). If the latter is defined as being constitutive of a comprador status, then one would say not that the domestic large capital is intrinsically comprador, but that it gets progressively reduced to a comprador status because it has no other options. The Latin American case is instructive in this respect. If the Latin American capitalists were shifting capital out of the region in order to put it in metropolitan banks even as Latin America was borrowing heavily from the very same banks, the reason lay not in some special inherent trait they had. They were simply acting as capitalists doing the best for themselves in a given situation, and not in some special sense as comprador capitalists.

For us in India of course this is still a *denouement* which lies in the future. Meanwhile the Fund-Bank dictated regime-change is being put into operation not just because of the power of the Fund and the Bank to dictate, but also because it can muster a certain amount of initial social support. Apart from the capitalists who see in it a way out for themselves of the impasse which the earlier regime of State intervention had run into, it has an initial appeal for petty-producers who felt oppressed by bureaucratic high handedness earlier, for section of the landlords and rich peasants who have hopes of obtaining higher ('world') prices for their products, for the intelligentsia which (leaving aside the section that derives material benefits from Fund-Bank connections) felt despondent because of the dead-end reached by the earlier regime, for the urban middle-class which dreams of a plethora of hitherto prohibited consumer goods becoming available on the domestic market, for the bureaucrats and the professional elite who see personal benefits flowing from globalisation and for the upstart class of fixers and wheeler-dealers who hope to gain as speculators or as local agents of metropolitan capital. The more important question however concerns the extent to which the new regime would *continue* to *enjoy* a degree of social support.

We saw earlier that one reason why the parallel regime-change in the advanced economies continues to retain a degree of social support is that some of its adverse consequences for the domestic classes are exported to the periphery. By the same token, however, the regime change in the periphery, by permitting the import of these consequences, ceases to command much social support once the initial euphoria has died down. Deflation-cum-import liberalisation bring in their train domestic deindustrialisation, affecting petty producers and generating unemployment. The withdrawal of subsidies, the curtailment of social expenditure and the currency depreciation affect the working people adversely. For the majority of the population, therefore, the regime change brings about a worsening of the

economic plight.

The crucial sector to look at, however, is the agricultural sector. Insofar as the domestic terms of trade within the periphery tend to be more unfavourable for the agricultural sector than the terms of trade in terms of 'World Prices', and are clearly so in the Indian case, the removal of controls, including on trade, would, it may be argued, improve the position of the peasants and the landlords, and thereby generate a powerful social support base for the new policy regime. Let us examine this argument closely.

Since prices in the manufacturing sector are generally fixed on a cost-plus basis, any narrowing of the domestic terms of trade can come about only through a rise in agricultural prices relative to the money-wage-rate in the manufacturing sector. Since the money-wage-rate in the non-manufacturing sector, including in agriculture and other unorganised activities, is unlikely to go up faster than the manufacturing sector's money wage-rate when the food prices are rising, this is a powerful additional reason (additional to those mentioned above) why the vast mass of the working people, including even the urban salariat, would be hit adversely by the new policy-regime. The same would even be true of the poor peasantry who are net buyers of foodgrains on the market, and, far from being beneficiaries, are losers when food prices increase.[13] So, the benefits of better terms of trade are relevant only for surplus farmers. But, since they constitute a sizeable and socially influential group, if their support is forthcoming for the new policy-regime, then that would be a significant phenomenon.

There is, however, one important reason why this support may not be forthcoming. Even assuming, as one should, that they would be net beneficiaries of the terms of trade shift, i.e., that the prices they would command would more than offset the higher costs on account of the withdrawal of credit, fertiliser and other subsidies, this would constitute a once-for-all improvement. Whether or not they would enjoy *rising* real incomes over a period of time would depend upon the extent to which their output would increase. Now, the pace of increase in output in an agricultural sector characterised by highly unequal asset distribution depends upon the pace of increase in public investment in irrigation, in technology generation, and in extension activities, and upon the degree to which the farmers respond to public investment with complementary private investment. With State expenditures, including investment expenditure, being curbed, the scope for increasing agricultural output would get progressively constricted. And with the combination of deflation and financial deregulation, there can scarcely be much doubt that the magnitude of credit (as distinct from cost) going into agriculture would become more restricted, in which case the response of private investment to whatever public initiative is still forthcoming would be correspondingly less. Already in India, investment in the agricultural sector has been badly hit over the last few years.[14] And the new policy regime would only perpetuate this dismal trend. It follows then that the possibility of the new policy regime consolidating a social support base

for itself even among the surplus farmers remains limited.

If the change in the nature of the policy-regime is not accompanied by the consolidation of a new social base that would extend continuous support to it, then the State is likely to become more authoritarian. This has happened in several third world countries that have gone in for the Fund-Bank package; and this is by no means an unlikely prospect in India if the current transformation is allowed to run its course.

Nothing has been said so far about the growth prospects of the economy as a whole under the new regime, even though the chief argument advanced in its defence by its proponents focuses on the question of growth. As a matter of fact, however, the question of the social support base for the new regime is intimately connected with its growth-prospects. An 'open-door' policy for metropolitan capital would succeed in raising the growth-rate of the economy only if metropolitan capital is willing to invest in it *for meeting the global market* (investment for meeting only the local market produces only de-industrialisation and no long-term growth). And whether this happens depends inter alia upon how stable the social conditions are. A State pursuing a policy-regime that does not have much social support is unlikely to attract investment by metropolitan capital in magnitudes large enough to raise its future long-run growth-rate above what was achieved in the past. And unless this happens, given the economic sufferings of the working masses in the transitional period, social instability would continue. We have, in short, a vicious circle here.

Many have argued that if the State through authoritarian measures can keep the working masses quiescent, then the vicious circle can be broken. The thesis that third world countries need dictatorships for their development may be odious but deserves examination. The basic flaw with it is not only that on its own reasoning it confuses between a necessary condition and a sufficient condition, but, more importantly, it fails to perceive that a dictatorship, in order to be stable, needs social support too. Even classical facism which was in the narrowest of class-interests, survived only by carving out a mass base for itself.[15] The interests of metropolitan capital today, as articulated through Fund-Bank conditionalities, preclude the possibility of a significant social support base for the State which is why it would have to be authoritarian, and which is why, despite being authoritarian, it would be a failure in generating growth. What we are witnessing today and are likely to witness in the near future are not the birth-pangs of a new vibrant capitalist order, but a transition to a state of progressive social decay. If, after a period of initial promise and dynamism, our economy then seems to have moved to a dead-end to be followed by decay, that only sums up the life-cycle of capitalism in societies like ours.

NOTES AND REFERENCES

*Presented at a seminar on 'The Indian State' organised by the Indian Institute of Advanced Study, Shimla.

1. The debt explosion and the need for State support for preventing a debt deflation have been discussed by a number of economists in the U.S., following upon the original work of Hyman Minsky. For a lucid discussion, see the collection of papers by Paul Sweezy and Harry Magdoff, *The Financial Exposition* (New York: MR Press).
2. See the volume on *Macro-economics* produced by the Union of Radical Political Economists in the U.S. (New York, 1989).
3. See M. Kalecki, *Theory of Economic Dynamics* (Allen and Unwin, 1954).
4. Since it is being argued that the banks lending rate is hiked up even when they have unutilised lending capacity, the presumption is of an implicit collusion among banks. In case interest rates are not administered, but are determined by the demand for and the supply of money, which is a common assumption in economics, the same result, i.e. a rise in interest rate, will follow if the demand for money is a function of the value of wealth.
5. V.I. Lenin, *Imperialism the Highest Stage of Capitalism,* Vol. 3 of *Selected Works* (3 Vols.)
6. See the well-known essay by Oskar Lange, 'The Role of the State in Monopoly Capitalism', reprinted in his *Papers on Economics and Sociology* (Pergamon Press).
7. M. Kalecki, 'Political Aspects of Full Employment', reprinted in *Selected Essays on the Dynamics of the Capitalist Economy 1933-1970* (OUP, 1971).
8. *Ibid.*
9. Professor J.R. Hicks, 'Comments' in the discussion of his paper 'World Economy in Recession' in D.K. Bose (ed.), *Review of the Indian Planning Process,* (Calcutta: ISI,1986).
10. A simple fact in support of this argument is the following: if primary commodity prices had not crashed and thereafter remained subdued through the 1980s, the level of unemployment required in the advanced capitalist economies for bringing the rate of inflation down to its current level would have been vastly in excess of what prevails. For the role of primary commodity prices in controlling the inflation rate, see W. Backerman and T. Jenkinson, 'What Stopped the Inflation: Unemployment on Commodity Prices?' *Economic Journal,* March 1986.
11. The manner in which an income deflation directed against the peasants via an adverse terms of trade shift can control the rate of inflation is analysed in my paper. 'Terms of Trade and the Rate of Inflation' in K. Basu and P. Nayak (ed.), *Development Policy and Economic Theory* (Delhi: Oxford University Press, 1992).
12. Voices demanding such a transition have been there (in BJP circles for instance) but have on the whole been rather muted.
13. See in this connection Ashok Mitra, *Terms of Trade and Class Relations* (London: Frank Cass, 1977).
14. S.L. Shetty, 'Investment in Agriculture: Brief Review of Recent Trends', *Economic and Political Weekly,* February 17-24.
15. Palmiro Togliatti, *Lectures on Fascism* (London: Lawrence and Wishart, 1976).