

A Failed World View

AMIT BHADURI

It is remarkable that despite the inexactitude of economics as a body of knowledge, which should have left enough space for some if not several contesting economic ideologies, over the last 20 years or so all the major political parties in India cutting across the spectrum from the Left to the Right largely converged to a very similar point of view on economic management. Would the current global financial and economic crisis give us the courage necessary to re-educate ourselves to view the “logic of the market” more logically?

A badly kept secret among economists should be shared with non-economists. Economic theory, insofar as it consists of results derived logically from clearly stated premises, is mostly precautionary knowledge which warns against unfounded economic propositions. Very rarely, is it positive knowledge for guiding policies. There is an even more fuzzy area of economic knowledge which infers from quantitative data through statistical techniques and historical analogies. Such knowledge is even more tentative, yet essential in a subject like economics where controlled experiments are impossible. With data generated over time subject to observational error, bias, and random shocks, we would do well to remember the saying of the Greek philosopher Heraclitus, a rough contemporary of Buddha, “It is never possible to step twice into the same river”.

As a body of inexact knowledge, economics requires us to be intellectually modest and that leaves little room for inflexible views. And yet, exactly the opposite happens. Driven by ideology or vested interests, politicians, captains of industry, media men, spokespersons of the chambers of commerce, labour unions and even academic economists posture with absolute confidence, often to mislead the public for their own interest, and conveniently change suddenly, again to suit their interest in a changed situation. Flexibility in views is necessary in economic policy-making, but only if one is willing to learn honestly also from one’s past mistakes. The problem with most politicians suddenly changing their views is that they change only their posture, but not their ideology. Their interests remain the same. Otherwise, how can we explain our prime minister telling a captive audience that he foresaw the current financial crisis 18 months ago, while on 18 March 2006 he told a global audience that the Reserve Bank of India would prepare a road map

on full capital account convertibility to integrate the Indian financial system completely with the global capital market, but now he talks of insulating India. As a matter of fact, until the global financial crisis gripped the world, our “dream team” of policymakers including the current prime minister, deputy chairman of the planning commission and the then finance minister insisted on speedier liberalisation of the financial sector with measures like capital account convertibility, greater presence of foreign banks and insurance companies with freedom to shift funds. Now they want to take credit for being prudent and slow in introducing reforms, making the nationalised banks safer, etc.

Politicians may be right in believing that public memory is short, but perhaps they would find that it is not that short! Women and men in practical affairs pretend to know and change posture to suit the situation, but it should be the job of economists to call the bluff. We have not done too well on that count. As a well-known economist once said, “Some knowledge of economics is useful, if only to guard against being fooled by other economists”. Amidst the global financial crisis and the quick u-turn taken by our so-called economic technocrats in the government, I am often reminded of the intrinsic wisdom of this statement.

Inexactitude of Economics

It is remarkable that despite the inexactitude of economics as a body of knowledge which should have left enough space for some if not several contesting economic ideologies, over the last 20 years or so all the major political parties in India cutting across the spectrum from the Left to the Right largely converged to a very similar point of view on economic management. While differentiating themselves mostly by rhetoric, they came to subscribe to the view that globalisation, market-based liberalisation and corporate-led industrialisation are inevitable compulsions for economic development in India. Consequently, they all sought foreign investments and funds on whatever terms, accepted World Bank-IMF views of growth and equity, and engaged in a race to the bottom by

Based on the Foundation Day Lecture delivered on 29 December 2008 at the Inter University Centre for Astronomy and Astrophysics, Pune.

Amit Bhaduri (abhaduri40@hotmail.com) is with the Council for Social Development, and the Jawaharlal Nehru University, New Delhi.

offering competitively favourable terms to attract large corporate houses to the states where they were in power. In short, the TINA syndrome that, "There Is No Alternative", gripped economic action as well as imagination. For the traditional Left, recent history explains part of it. The failure of Soviet style bureaucratic central planning, u-turn of officially socialist China and Vietnam in embracing capitalist style policies undermined confidence in old-fashioned socialist ideas. Economic success stories of countries like South Korea, Singapore, Taiwan, Malaysia and Hong Kong pointed to attractive possibilities. Nevertheless, in the orchestrated celebration of the market economy, one tends to forget that this story is one-sided. It is inconvenient for a pro-market economist to remember that most countries of sub-Saharan Africa, of Latin America, of central Asia underwent dramatic economic stagnation or decline for several years by embracing the same principle of market-based liberalisation (Angus Maddison, *The World Economy: A Millennial Perspective*, Paris, 2001).

With economic history seldom giving unambiguous answers, economic theory has to play a critical role in making our inexact knowledge appear more plausible in the service of economic ideology. The ideology of the self-regulating free market that came to rule the world and is commonly known as neoliberalism has its origin in the idea of perfect competition as the prototype market form. We all know markets involve buying and selling, activities which are organised under certain rules that vary enormously, say from the weekly village market to the stock exchanges in Dalal Street or Wall Street. Economists study the properties of the market organisation by taking a perfectly competitive market as their point of reference. Under highly unrealistic assumptions, which rules out, for instance, all forms of uncertainty and banishes the unknown future from the analysis, some results are obtained. It is shown that an equilibrium set of prices exists which simultaneously clears all markets by equating demand and supply. The prices in equilibrium correspond to an efficient arrangement in the sense that the production of no commodity can be increased further without

decreasing the production of some other, and no participant in the market can do better either as a producer or consumer, without someone else becoming worse off. The powerful ideological metaphor is that of the invisible hand of the self-regulating market leading the society of selfish individuals to an optimum. This is indeed a most spectacular case of self-organisation, where neither any intervention of the state nor any concern for the collective expressed in social norms like trust and fellow feeling is needed to reach the optimum economic state. Margaret Thatcher, the former prime minister of Britain and the main architect of the neoliberal world view famously echoed this sentiment by claiming that there is no society, only individuals.

Flaws in 'Perfect Competition'

However, even this mythical land of perfect competition is flawed on its own terms. The optimum equilibrium that is shown to exist under idealised conditions does not guarantee that the distribution of income in the society would be tolerably good. To appreciate its practical implications, remember demand depends on the purchasing power of individuals, so a grotesquely unequal distribution of income under competitive conditions might mean millions of children dying from easily treatable diseases like malaria and TB, while most expensive hospitals in the metropolis provide state of the art treatment at a price which only the rich can afford. Villages go without sanitation and drinkable water, but selected areas of cities might pride themselves with world class luxury apartments and glittering malls. And yet, by the logic of the market any such equilibrium would still be considered optimum because it allocates resources efficiently, and the poor in the city slums or in the villages cannot be made better off without hurting the rich in the cities.

A deeper logical flaw is that the stability of the equilibrium in a competitive market is not guaranteed without imposing further stringent conditions, and it remains unspecified how long it would take to converge to it. This is a political catch. A decision-maker in a democracy, say a prime minister, can always say that economic

Gyan

reforms are about to produce results without specifying the time horizon. Like a dictator, the competitive market can go on promising without delivering, as it is without accountability within any specified time period. In this sense the market as an institution has no accountability except for the largely make-believe ideology of self-regulation. This is the fundamental difference between the market and democracy insofar as in a democracy, there is some reckoning at the time of elections. I need only to remind you that market-based reforms did badly in India on that count. The slogan of “shining India” crashed in the last general election, and the present prime minister, widely considered the guru of India’s market-oriented reforms, could not personally win an election.

Enthusiastic reliance on the market mechanism as the main driving force of efficient resource allocation and growth by the government accentuated poverty to create rumblings outside the electoral process in the countryside which often spills over into desperate fury and despair. More than 1,00,000 farmers have committed suicide over the last decade or so. According to government estimates, some 125 districts, spread over 12 states, and covering more than a quarter of the land mass mostly in the central part of India, is affected by extremist Naxalite activities. The dalits (16%) and the adivasis (8%), approximately one quarter of the population, provide the main support to these movements, suggesting a combination of economic and socially oppressive factors as a major cause. Despite near double-digit growth for more than a decade and a half, available estimates suggest that more than one-third of the Indian population live in sub-human poverty (a recent World Bank estimate puts nearly 42% as absolutely poor by international standard), more than three-fourths of the population has a daily purchasing power of less than Rs 20 a day, nearly half the children are undernourished and many crippled by undernourishment, anaemia is on the increase among women, and food deprivation in the countryside has not decreased in the last two decades. And all along the logic of the market has been encouraged by government policies to work relentlessly

against the poor majority through three major routes.

Slow Growth in Employment

First is the extraordinarily slow growth in regular employment. Regular employment in the organised sector over the last decade or so grew at only about 1%, while the rest of the average 6 to 7% growth in GDP came from the growth in output per worker or labour productivity. In contrast, during the earlier decades, when GDP grew on an average at less than 4%, regular employment grew at the annual rate of 2%. The recent drive to increase labour productivity is related to globalisation. International trade means increasing the importance of the external compared to the internal market, while corporations compete in the export market mostly by cutting costs to increase their international competitiveness. This usually means shedding labour force through mechanisation. For instance, if the labour force in a corporation is downsized to half at the same wage, labour cost per unit of output would also be halved. Let one example suffice to illustrate how this process is working in practice. Tata Motors in Pune reduced the number of workers from 35,000 to 21,000 but increased the production of vehicles from 1,29,000 to 3,12,000 between 1999 and 2004, implying labour productivity increase by a factor of four. The aggregate picture broadly conforms to this. According to the *Economic Survey* of the government of India (2006-07), total employment in the organised sector declined from 28.2 million in 1977 to 26.4 million in 2004, because the much talked about growth of the private organised sector under the reform policies of the government hardly compensated for the decline in employment by the public sector. Another telling piece of evidence against the belief that corporate-led industrialisation and greater direct foreign investment would promote more employment came from the headlines of *The Times of India* (7 July 2008). Long hailed as most dynamic in these respects, a recent comparison of the various states of India suggested Gujarat and Maharashtra have been among the slowest growing states in terms of creating either non-agricultural or manufacturing jobs.

With regular employment opportunities growing far too slowly compared to the number of job seekers, more and more people are being pushed into the unorganised sector. Agriculture, in particular, has become even more overcrowded. According to the National Sample Survey (61st round), approximately 110 million agricultural workers (out of a total workforce of 400 million) found employment for 209 days in 2004-05 compared to 220 days in 1999-2000. People desperate for a livelihood join the ranks of the so-called self-employed in the unorganised sector, the fastest growing category, marked by long hours of work with negligible earnings, lack of any social security or labour protection and extensive use of child labour. More than half the hawkers of Kolkata, and more than one-third of the hawkers of Amhedabad belonging to this category of the self-employed are retrenched industrial workers, now threatened once more with the corporatisation of retail trade in this era of globalisation in the name of economic efficiency. This vast informal sector is increasingly becoming a refuge for people devoid of all hopes, and reminds one of the hell imagined by the great Italian poet Dante. On its gate is written, “You enter this land after abandoning all hopes”.

The second reason for growing inequality lies in the style of economic management pursued by the government. While opportunity for regular work is growing at a grossly insufficient pace despite a high growth rate of output, the government has become increasingly weary of spending more for social welfare like health, education, public distribution and social security for the poor. Government expenditure remained more or less steady around 22% of GDP throughout 2000-07, with health receiving 1.4% and education receiving 2.9% of GDP, on the average. The apparent reasons given are lack of “money” and poor public delivery system for social services. However, these are superficial justifications, and there is a more compelling reason which has come out into the open due to the financial crisis. Globalisation of finance made the government highly sensitive to the moods of the stock market and the financial sentiments of major players in that market. Even after the recent

dwindling, India still has a relatively large foreign exchange reserves (\$250 billion), but unlike China which has been enjoying export surplus for several years, our reserves come mostly from capital inflows exceeding balance of payments deficits, like deposits from non-resident Indians and portfolio investments by various international financial institutions. These are far more fickle in nature and can be withdrawn at a relatively short notice if the mood of the financial market turns sour. A main thrust of the pro-market government policy has been to keep the financial market happy by being on the right side of the International Monetary Fund and the World Bank insofar as they have a central role in shaping international financial opinion for banks, credit-rating agencies, and other financial institutions. This means following their economic guidelines in formulating policies. As a result, the government minimised its welfare spending by letting it stagnate as percentage of GDP even during the years of high growth. The cost of this squeeze of expenditure on social security, education and health falls mainly on the poor who cannot turn to the market due to lack of purchasing power and job opportunities.

Style of Industrialisation

The *third* route is paved by the style of industrialisation the government has increasingly adopted. It amounts to extending various privileges to the large corporations by the federal and state governments, irrespective of their professed political colour as incentives for promoting corporate-led industrialisation. Land acquisition by the states (land is a state subject under the Constitution) for “public purpose” has become its politically most visible aspect. The central government all along has provided the legal and logistical support for land acquisition, and the original 1894 Land Acquisition Act proclaiming the “eminent domain” status for the state was significantly revised successively in 1952, 1963, and 1984 to give greater power to the government to acquire land for the defence sector, companies, cooperatives and public sector companies. The present government has brought two related bills (of the Land Acquisition Amendment Act,

and Rehabilitation and Resettlement Act, both under consideration of parliamentary standing committees) to extend in many ways further the reach of the government. They are all linked directly or indirectly to a view of the model of development for three major purposes, namely (a) mining, (b) land for industrial sites, and (c) Special Economic Zones (SEZs). First, consider the mineral rich usually forested land acquired mostly from the tribal populations, concentrated heavily in Jharkhand, Bihar, Chhattisgarh and Orissa. As has often been pointed out, these are some of the richest lands in the country where the poorest live.

Mining and the Poor

A piece of revealing statistics shows that mining displaces typically the poorest in the country, the adivasis or tribals who constitute some 8% of the population but account for nearly half of the people displaced in the name of development. The state apparatus takes recourse to silent violence in various ways. Forcible acquisition of land and dispossession takes place often through manufactured consent of the gram sabhas at gunpoint to comply formally with the legal requirements of the Panchayat Extension to Scheduled Areas Act (1996) relating to tribal areas. The “public” purpose is granting possession to “private” corporations of the iron ore rich land in Chhattisgarh, Jharkhand, Madhya Pradesh, bauxite rich land of Orissa, prospect of diamond mine in Bastar, etc. Memoranda of Understanding (MOUs) between the large private corporations and the concerned state governments are seldom revealed despite applications under the Right to Information (RTI) Act. The mining land taken from the locals at a unilaterally announced low compensation price (that is frequently not paid) is handed over to large corporations and industrial houses often with supporting infrastructure provided by the government at public cost by displacing more people. A telling instance of public-private partnership is the proposed SEZ comprising 45 villages in Raigad district of Maharashtra, which has been recently rejected almost unanimously in a referendum held in 22 villages. While the government had the area under notification for acquisition

for a “public purpose”, in that very same area agents of the Ambani companies were privately trying to acquire land illegally with direct help from the Maharashtra government.

Is all this done only to pursue a model of industrialisation, or does large money also change hands benefiting our political class and many bureaucrats in this process? This is at least a part of the story behind the phenomenal growth in corporate wealth and dollar billionaires in the country in recent years. Available statistics show that in hardly four years, between 2003-04 and 2006-07 the market value of capital of the companies listed on Bombay Stock Exchange grew almost 300%, while until the recent stock market crash India with the majority of its population desperately poor could perversely boast of the highest number of dollar billionaires after the United States. The logic of a liberalised market mechanism buttressed further by state power to help the private corporations is relentlessly creating unprecedented inequality in India along with high growth. Sub-human poverty for millions and billions of dollars for a handful of citizens has become the name of this game called development.

Growth Driven by Rich

For this growth process to remain economically viable over time, slow growth of domestic purchasing power of the majority of the population must be countered by a compensating expansion either of our exports or expenditure by the rich. However, because our exports exceed imports and we buy more from the foreigners than we sell to them, the net contribution of the foreign trade sector to the expansion of demand in our economy is negative. As a result, this anti-poor pattern of growth is being sustained by a rapid expansion of income and expenditure by the richer groups in society (a maximum of the top 20 to 25%). The increasing inequality entailed in such a process of high growth means that the corporations sell their products and realise handsome profits by concentrating mostly on the production of goods consumed by the richer sections of the population. As a result, some 75% of Indians with a daily per capita purchasing power of less than Rs 20 have

virtually no place in this corporate-led modern economy as consumers. Their space as small rural producers or as small businesses in the unorganised sector also shrinks, as the goods produced for the high end of the market can mostly be produced only by corporations (e.g., cars, refrigerators, air conditioned malls, state-of-the-art hospitals, etc).

Thus, growing inequality and lack of employment opportunities are coupled, and an output composition oriented towards a rich minority of this country tend to exclude the majority of our fellow citizens and often destroy their livelihoods. The big dams that we build, the electricity that we generate, the world class cities that we strive for divert even non-reproducible natural resources. The large corporate houses use them efficiently to produce and sell to the rich profitable products, but their efficient utilisation of natural resources imply the exclusion of the poor both as producers and as consumers. The process of growth is sustained by growing inequality, and inequality reinforces growth in a mutually supportive manner. The Swedish economist Gunnar Myrdal had called it "cumulative causation", somewhat similar to the engineer's system of strong positive feedbacks, the evolutionary biologist's symbiosis between two species, and perhaps the notion of autocatalysis in chemical reactions.

Silence of the Majority

While all this has been happening around us for quite some time, most of us refused to see it. The mainstream English language media, largely owned and controlled by large corporate houses, condition us continuously to turn a blind eye and believe that the virtual economy of the hourly fluctuations in the stock market is far more newsworthy than the growing inequality, despair and fury engulfing gradually the countryside. Most economists who should have known better, fuelled this perception and cheered politicians in power for the rapid emergence of India as a global economic power; and, of course, politicians in power never tire of congratulating themselves for their own achievements. When the market boomed they took credit for liberalising

the market, then as the market crashed they took credit for not liberalising the market! They took credit for forcing labour market flexibility of "hire and fire" rule; when the market crashed the prime minister begged the captains of industry in a specially called meeting not to fire workers near the time of elections. This hypocritical politics has been going on as business as usual until the recent global financial crisis shook deeply the confidence in self-regulating free market capitalism with its global reach. The comfortable thought that more economic reform to deregulate the market and speedier integration with global market would lead us rapidly towards an optimal economic state is no longer fashionable. Like their counterparts in the US and Europe, pro-market reformers of yesterday are now looking for cover; they who had opposed it now want more supervision and regulation of the market in India. However, this is only passing, because as an old English rhyme says: "Those who are convinced against their will/Are of the same opinion still."

Neoliberalism has merely gone out of sight, but not out of mind. Vested interests crystallised around corporations are merely on the defensive at the moment.

We are still being misled to support a model of corporate-led industrialisation financially helped by the state in difficult times as the way to our economic development, without questioning its relevance in the Indian context. A deep-seated habit of thinking inculcated by the globalisation, privatisation and liberalisation rhetorics still wants us to believe that this market fundamentalism, practising developmental terrorism selectively on the poor, will ultimately help them as high corporate growth trickles down.

Subversive Questions

To keep our conscience comfortable, it claims that the market can substitute for social ethics by deciding what is profitable to produce, and who should be in charge of production. So we no longer question how without extensive public action and state intervention in favour of the poor, in this country of overwhelming poverty the logic of political democracy of one-adult one-vote can be compatible with the logic

of the market dictated by the rich with many more votes with their higher purchasing power than the poor. These are almost subversive questions; and yet, the ability to pose them is the first step to liberate ourselves from the ruling system of conventional economic wisdom that has failed us so badly despite the big show of producing precise technocratic economic knowledge, helped by various vested interests including the distribution of a disproportionately large number of Nobel Prizes to make market-oriented economic conservatism academically respectable.

Long ago in the introduction of his famous allegorical novel, *The Animal Farm*, George Orwell had warned us that British democracy is not very different from the totalitarian monster he was describing in his book. Unpopular ideas, he said, can be suppressed without the use of force with two methods. First, the press is owned by wealthy men (read corporations these days!) who have every reason not to want certain ideas to be expressed. And the second reason, Orwell said, is a good education. If you have gone to the best schools (read specially the top management and economics schools), it has been instilled in you that there are certain things it would not do to express or even to think about. Aided by the media, our educated middle class showed its excellent education until recently by banishing all sceptical thoughts about the efficiency and intrinsic wisdom of the market, and the virtues of corporate-led high growth under financial globalisation.

Would this global financial crisis give us the courage necessary to re-educate ourselves to view the "logic of the market" more logically? For, at times the unintended effects of history can be beneficial.

Economic & Political WEEKLY

available at

Delhi Magazine Distributors Pvt Ltd

110, Bangla Sahib Marg
New Delhi 110 001
Ph: 41561062/63