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GROWTH TRAJECTORY OF THE POST-`REFORM' INDIAN ECONOMY

`Rolling' Back State capitalism

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The economic regime under which capitalist development was sought to be promoted in the post-independence period had at least four important characteristics: the setting up of a State capitalist sector to plug gaps in the production structure, especially in areas involving high risks and long gestation periods, and also to expand the size of the home market; the cordoning off of the domestic economic space against the free imports of commodities from outside, so that the Indian bourgeoisie (and foreign capital already located in India) had priority access to it; close scrutiny and monitoring of MNC investments in the country; and State control over the sphere of finance, through the nationalisation of banking and insurance and the setting up of special financial institutions, to ensure that finance was made available at low interest rates (usually at negative real interest rates) and in a more even manner to the different sections of the ruling classes: the monopoly bourgeoisie, the landlords and the capitalist farmers.

Liberalisation-cum-structural adjustment entails a negation of each one of these features. It insists on `rolling back' State capitalism through expenditure cuts by the State, including investment expenditure, and the privatisation of State-owned assets; it insists on `import liberalisation' which opens up the domestic economic space to the free flow of foreign goods, to the detriment of local producers; it enforces the soliciting of investment by the MNCs through the offer of lucrative `incentives', reminiscent of colonial times, and through the handing over to them of the `commanding heights' of the economy; and it imposes financial liberalisation and a shift over time to a regime of free capital flows.

Underlying the earlier regime was the view that the assimilation of an economy into imperialist hegemony gives rise to stagnation and

even retrogression, and that a relatively autonomous strategy of development is essential for rapid growth. The fact that this view found expression in a programme of capitalist development that did not undertake thorough-going land reforms but unleashed on the people a process of ruthless primitive accumulation of capital, because of which the rate of growth remained unimpressive, the impoverishment of the people persisted, and the economic regime itself became unsustainable, should not detract from the correctness of the view itself. Indeed, the experience of the economy since the introduction of the so-called `reforms' whose objective is to assimilate it into imperialist hegemony is in conformity with this view. Not only has the economy become a victim of stagnationist impulses, and exposed to the caprices of international speculators, but the growth in inequality which is a necessary accompaniment of `liberalisation' has resulted in an increase in the incidence of poverty and an undermining of the food security of the people. The cuts in social sector expenditures have made matters worse.

Growth of Production

Ever since the introduction of `structural adjustment' the government has started manipulating official statistics to paint a rosy picture of the economy's performance. As a result, Indian statistics which were of a very high order of reliability until a few years ago, based on a system which was among the best organised in the world, have become exceedingly unreliable. Perforce however one has to use these statistics bearing in mind their inherent bias. Even so, what emerges clearly is the slowing down in the economy's performance in all sectors. Table 1 gives the annual average growth rate of GDP at 1980-81 prices and of the real value added in the primary, secondary and tertiary sectors for the seventh plan (1985-90) and for the period 1990-1 to 1996-7.

The reason for taking 1990-1 as the base year for these calculations is the following. Because of the drastic deflation which was imposed on the economy immediately after the introduction of `structural adjustment', taking 1991-2 or 1992-3 as the base years for comparison is illegitimate (since these were the deflation years). On the other hand 1990-1 was pre-deflation, and a good agricultural year like 1996-7, so that these two make legitimately comparable end-points.

Table 1 Average Annual Growth rates (1980-81 Prices)

	GDP	Agriculture	Industry	Services
Average VII Plan (1985-90)	6.0	3.4	7.5	7.4
1990-1 to 1996-7	5.2	2.5	6.0	6.8

Source: Calculated from the Economic Survey 1996-97.

It may be objected that one should not look at the period as a whole since within this period there are two phases, a phase of deflation during which the economy was being sought to be stabilised, and a subsequent phase of recovery, starting from 1993-4. This argument would have weight if the recovery had continued beyond 1996-7, in which case truncating our period at that date would indeed have been illegitimate. But the economy's performance has been dismal in 1997-8, when the main commodity-producing sector on which the hopes for an economic breakthrough are usually placed, namely indusry, showed a remarkable slow down. Table 2 gives the annual growth rate in the index of industrial production (as distinct from secondary sector value added).

Table 2: Industrial Growth Rate (percentages)

1991-2	0.6	1994-5	9.4
1992-3	2.3	1995-6	11.8
1993-4	6.0	1996-7	7.1
1997-8	4.7 (April-Sept.)		

The euphoria generated by the recovery since 1993-4 that the economy is on to a higher growth path has completely disappeared. It is now clear that this recovery was not due to some sustained new stimuli imparted to the economy by the policy of `structural

adjustment'; it was a result of transient phenomena, the stepping up of the fiscal deficit in 1993-4, and, even after the fiscal deficit had been lowered in the subsequent years, the satisfaction of pent-up demand for a variety of hitherto-not-available luxury consumer goods. Since the rate of growth of the demand for such goods, as opposed to the once-for-all splurge that the satisfaction of pent-up demand entails, is much lower, the stimulus which such demand imparts to industrial production evaporates quickly; and this is exactly what has happened.

If we take the entire quinquennium 1985-6 to 1990-1, the average annual growth rate of industrial production comes to 8.4 percent. On the other hand for the seven years 1990-1 to 1997-8, on the assumption that the growth rate observed in the first half of 1997-8 holds for the year as a whole, the annual growth rate would be 5.9 percent. The fact of the slowing down of industrial growth as a secular phenomenon, not just a short-term consequence of `stabilisation' but an expression of the loss of expansionary stimulus that a `liberalised' economy entails, through the decline of public investment, through higher interest rates, through the shrinkage of demand owing to import liberalisation, can scarcely be doubted.

But a slowdown is also in evidence in the agricultural sector, where the growth rate in the production of foodgrains in particular has declined sharply. For a long time now the Indian economy has experienced a secular growth rate of foodgrain production of a little over 2.5 percent per annum which was a little higher than the population growth rate. Even during the 12 year period 1978-9 to 1990-1 (both being good agricultural years are comparable), the rate of growth of foodgrain production was 2.4 percent which was above the population growth rate. However, over the period 1990-1 to 1996-7 (again both good agricultural years), the growth rate of foodgrain production dropped to 1.4 percent which was distinctly lower than the population growth rate. (Even the Economic Survey's growth rate based on the index numbers of foodgrain production comes to 1.7 percent).

This conclusion is no trick conjured up through the choice of illegitimate end-points. Even if we take 1990-1 and 1994-5 (a peak year) we get a growth rate of 2.1 percent which marks a deceleration from the secular trend and just about keeps pace with population growth. We are therefore witnessing the emergence of a serious food crisis. The fact that despite this reduction in output growth rate there has been no actual food shortage till now is of little consolation. It

merely shows that purchasing power among the workers, especially the rural workers, has increased even more slowly in real terms (i.e. when deflated by an index of the administered prices of foodgrains). The reason for this lies partly in the steep escalation in administered prices of food which occurred in the aftermath of `structural adjustment' as a part of the so-called fiscal correction (for which subsidies had to be kept down), and partly in the shift of emphasis towards export agriculture and away from food crops. Foodgrain production being more employment-intensive than the exportable commodities which substitute for it in terms of land use, such as prawn fisheries, sunflower, orchards etc., a shift of acreage from the former to the latter that occurs as a sequel to `liberalisation' has the effect of restricting employment growth. In fact this latter process explains inter alia both the decline in foodgrain output growth and the decline in employment growth.

There is however an additional factor behind the drop in foodgrain output growth. And this is the drastic decline in real public investment that has occurred in agriculture over a long period. Gross capital formation (at 1980-1 prices) under the aegis of the government in the agricultural sector was Rs.1796 cr. in 1980-1; it remained way below that level throughout the 1990s, reaching Rs.1154 cr. in 1990-1 and only Rs.1310 cr. in 1995-6. The deceleration no doubt had occurred during the 1980s itself, but the 1990s have done nothing to boost public investment. During the 1990s there has no doubt been a step up in real private gross capital formation in this sector from Rs. 3440 cr. in 1990-1 to Rs.4991 cr. in 1995-6. But even if these figures are taken seriously, much of the increase in private investment has been in the non-traditional sectors of export agricullure rather than in foodgrains production. It is noteworthy that the growth rate between 1990-1 and 1996-7 shows a sharp decline not only for the coarse grains from which much land has shifted towards export crops like sunflower, but even for rice (1.52 percent compared to 3.35 percent for 1980-1 to 1995-6). This is symptomatic of a decline in investment in traditional food crops.

Capital Formation

But this is part of an overall picture of investment stagnation. According to official data gross domestic fixed capital formation as a proportion of GDP behaved as follows:

Table 3: GDCF as Percentage of GDP

Year	%	Year	%
1990-1	23.2	1993-4	21.6
1991-2	22.1	1994-5	22.4
1992-3	22.5	1995-6	24.6

Source: Economic Survey 1996-97, p.3.

These figures reveal a picture of stagnation; moreover, even the slight increase in 1995-6 was not sustained in the subsequent years: the growth of output of the capital goods industry which was 17.9 percent in 1995-6 and 17.3 percent in 1996-7, has witnessed a decline to less than 3 percent in the first six months of 1997-8. What is more, the monthly growth rates were minus 8.4 percent in August and minus 19.1 percent in September! Since the level of investment effort in an economy is reflected in the output of its capital goods and its net imports of such goods, a stagnation in the capital goods sector's output, such as what we are witnessing and which is certainly unmatched by any corresponding increase in net imports, is indicative of a stagnation in the level of productive capacity. To be sure the output of what are labelled as `capital goods industries' is not synonymous with total capital goods' output; nonetheless what is happening to the former gives some indication of the sluggishness of our investment effort.

There are reasons however to believe that even these figures represent overestimates. First, the method of estimating capital formation is to take some goods which are supposed to be used for capital formation and then see how much of such goods are used in a particular period. For coomodities like automobiles, or `machines' which are used boh for consumption and for capital formation, the method is to assume that a fixed proportion of the amount used in a particular period is for investment purposes. As a result, in any period when consumer durables' purchase in the economy is going up, this would also boost the capital formation figures spuriously. Secondly, construction which is supposed to be a part of capital formation can boom without actually adding to the productive capacity of the economy. Anyone familiar wih the real estate boom in metropolitan centres and indeed in urban India would know that much of this represents speculative investment or luxury consumption rather than any addition to the productive capacity of the economy. In short, the

concepts and methods used for capital formation estimation in India are such that increased `consumerism' would necessarily also get reflected as increased capital formation. Since the post-`liberalisation' period has been universally accepted as a period of increased `consumerism', this gives an upward bias to capital formation estimates. And once we correct for this, the genuine investment ratio would show a decline in this period.

No economy can experience an acceleration in growth unless it steps up its investment ratio, i.e. unless it devotes a much higher proportion of its surplus value to productive capital accumulation. Countries in East and South East Asia which have witnessed extremely rapid growth in recent years, until they were hit by the currency crisis, maintained investment ratios of around 35 percent of GDP. China has an investment ratio of nearly 40 percent. By contrast the investment ratio in India barely reaches 25 percent. If the country is to step up its growth rate, then its investment ratio has to be increased appreciably. And the argument of the `liberalisers' was that if only the policy of `liberalisation-cum-structural adjustment' is pursued, then investment ratio in the economy would go up and our growth rate would accelerate. What is happening to our capital goods industries is a decisive disproof of this assertion. Not only are the capital goods industries facing recession, but our investment effort is languishing, which makes all claims about India stepping up her growth rate (and even reaching double-digit growth rates) utterly ludicrous.

The reason for the poor investment performance is not far to seek. The proposition that if only more surplus value is handed over to the capitalists they would automatically invest more is a myth perpetrated by the ideologues of capitalism. As a matter of fact capitalists undertake productive investment, i.e. add to the capital stock, only when they expect to be able to sell the ensuing larger output at a suitable rate of profit, i.e. only to the extent that they expect the market for their products to expand. No doubt the growth of the market is something to which their own investment behaviour <u>in the aggregate</u> is a major contributor; but obviously the whole investment process is supported, and has to be supported, by some additional stimuli. The three possible sustained stimuli which can play such a role in an economy like ours are: public investment (and expenditure in general), the growth of the home market arising from rapid agricultural growth, and the growth of exports <u>other than of primary commodities</u> (since larger primary commodity exports, as we have seen, may merely mean diversion of production from home use rather than larger production). Of these, exports, no matter how rapidly they

grow (within the bounds of course of plausibility), can scarcely be of much importance as an investment stimulus for an economy the size of India. On the other hand the growth of the home market arising from the agricultural sector remains constrained by the absence of egalitarian land reforms, and, even within the existing agrarian structure, by the cutbacks in public investment that have been imposed of late. This last factor (and the general restriction on public spending of which it is a part) also eliminates the stimulus provided by public investment through the demand it generates directly or indirectly for a host of commodities. The `rolling back' of State capitalism therefore, far from increasing the investment ratio, causes its stagnation and even decline.

The Crisis of Public Finance

The usual justification for cutting back public spending, which typically takes the form of cutting back investment and welfare expenditures by the State, is that the fiscal deficit must be cut, since it is a source of `instability' of the economy. This is a false argument for a number of reasons: first, the main cause of `instability' in the sense of either generalised inflationary pressures or an unmanageable trade deficit is an excess of aggregate demand over aggregate supply. The demand of the government is only one component of this aggregate demand in which the demand of the `corporate' and `household' sectors and of the `rest of the world' constitute the other components. Hence the size of the fiscal deficit, which shows the net demand arising from the government, does not have anything to do directly wih `instability'. Secondly, the fiscal deficit has two components: there is the deficit in the revenue account which shows the excess of government current expenditures over its current receipts and to this is added the investment requirements of the government which have to be financed through borrowing. Now, borrowing to meet investment requirements is common practice and there is nothing wrong wih it, but borrowing to meet current expendiures does require scrutiny (though it is not necessarily reprehensible, e.g. in a recession) since it is indicative of "living beyond one's means". If the focus was on a reduction of the revenue deficit, then it would make sense, but by emphasising the fiscal deficit as distinct from the revenue deficit, the IMF and the World Bank deliberately try to negate the role of the government as an investor, i.e. to denigrate the public sector, for which there is no justification. Thirdly, a reduction in the revenue deficit, or in the fiscal deficit, can be brought about in a number of different ways, the obvious one being an increase in direct tax revenue. Indeed in any third world economy where glaring poverty

coexists with offensive opulence, increased revenue from direct taxes is urgently called for anyway as a means of reducing inequalities. But the Fund and the Bank invariably underplay this avenue of deficit reduction and emphasise cuts in investment and welfare expenditures.

Not only is the theory underlying such cuts invalid, but the fiscal deficit which is invoked to legitimise such cuts, both acquires importance and gets aggravated because of `structural adjustment'. Since inviting direct foreign investment by the MNCs becomes an overriding objective of economic policy, the rates at which they are taxed gets reduced in competition with other countries. This, for reasons of symmetry, means that direct tax rates on the rich as a whole are lowered, though spurious concepts like the so-called `Laffer Curve' (which "show" that reduced rates bring in larger revenues) are invoked in justification of it. Since customs duties are cut as part of `import liberalisation', and excise duties, again for reasons of symmetry, cannot be raised as a consequence, indirect tax revenues too suffer; and this is aggravated by the sluggishess in the growth rate that `structural adjustment' engenders. While tax reveues cannot be raised for lowering budget deficits, the increased interest rates, resulting in a larger interest burden on the government, which are another legacy of `structural adjustment' add to the expenditure side. Thus `structural adjustment' which is imposed upon the country owing supposedly to the fiscal profligacy of the State, itself works to further aggravate the fiscal situation, through lower taxes on the rich and higher interest rates.

At the same time, a larger fiscal deficit does make the economy crisis-prone if it is `liberalised', irrespective of whether there is any theoretical rationale for it. This is because speculative finance capital, believing in this false theory, can precipitate a balance of payments crisis through capital flight if it thinks that the fiscal deficit can not be sustained without a depreciation of the currency. In other words, what matters in a `liberalised economy' is not the actual relations but the perceptions of relations by the speculators. And because of this, governments, once they are trapped into `liberalisation', are forced into curtailing the fiscal deficit, for which the only available instrument is curtailment of investment and welfare expenditure. Putting it differently, it is not the case that a larger fiscal deficit necessarily leads to crisis for objective reasons; the claim that it does so becomes a self-fulfilling prophecy in a `liberalised economy'. And its curtailment invariably impinges more on capital rather than on current expenditures, so that `fiscal adjustment' leaves the size of the revenue deficit unchanged.

The Indian experience fully bears this out. Table 4 gives some information regarding fiscal developments:

Table 4: Some Fiscal Magnitudes as Ratios of GDP

	Revenue Deficit	Fiscal Deficit	Interest Payments	Subsidies
1988-89	2.7	7.8	4.0	2.2
1989-90	2.6	7.8	4.3	2.6
1990-91	3.5	8.3	4.5	2.5
1991-92	2.6	5.9	4.8	2.2
1992-93	2.6	5.7	4.9	1.9
1993-94	4.0	7.4	5.0	1.7
1994-95	3.3	6.1	5.1	1.5
1995-96	2.7	5.5	5.1	1.3

Source: Economic and Poliical Weekly, Budget Number, May 1997.

It is noteworthy that while the proportion of fiscal deficit in the GDP went down from nearly 8 percent prior to the imposition of `structural adjustment' to 5.5 percent by the mid-90s, the proporion of reveue deficit remained unchanged. This implies: first, that the reduction in the fiscal deficit was achieved by compressing capital expenditures which is harmful for the economy in the long-run since it leads to shortages, especially in the infrastructure sector (and hence to supplication before MNCs for investing in this sector); and secondly, that the basic fiscal problem, which lies in the very existence of a revenue deficit, is by no means addressed by `structural adjustment'. In fact since within current expenditure, the weight of interest payments has gone up owing to `structural adjustment' the revenue deficit would have been even larger, and hence the fiscal problem even worse, if the squeeze on the people through reductions in welfare expeditures and administered price-hikes had not increased.

`Structural adjustment' in other words entails a very specific fiscal regime, whose purpose is to increase transfers from the State to

rentiers in the form of interest payments, and to enforce larger fiscal burdens on the people and cuts in public investment (so that MNCs have to be wooed to step in).

Inflation and Poverty

The rise in prices during the 1990s has been a direct result of this. Since there has been a curtailment in the growth of public investment and a corresponding curtailment in the pace of growth of demand in the economy, inflationary pressures should have abated in this period. Instead we find that inflation actually accelerated in the post-`structural adjustment' period (Table 5).

Table 5: Increases in the Cost-of-Living Indices (percentages)

	Agricultural Labourers	Industrial Workers
1985-6 to 1990-1	47.1	53.5
1990-1 to 1995-6	71.6	62.2

Source: Calculated from various issues of the Economic Survey.

This acceleration of inflation in a period of `slack' demand was essenially due to hikes in administered prices which were ordered by the government in order to curtail its subsidy bill, and thereby the fiscal deficit. The commodity whose price was most severely affected in this manner was foodgrains. There were steep hikes in the central issue prices of rice and wheat in December 1991, January 1993 and February 1994. As a consequence of these hikes, by February 1994 the issue price of the common variety of rice had increased by 86 percent compared to the immediate pre-`structural adjustment' level and of wheat by 72 percent. It is hardly surprising that the cost-of-living of the workers, both in urban and rural areas, went up so sharply, and that the cost-of-living of agricultural labourers, for whom food is an even more important item in the consumption basket than for industrial workers, went up more steeply than for the latter.

Of course in recent months there has been a slackening in the pace of inflation, though this itself is in the process of getting reversed. This however is no credit to `structural adjustment', rather the contrary. Two factors have been particularly responsible, among others, for the slackening of the pace of inflation. The first relates to the fact that after February 1994 there was a long pause in raising the administered price of foodgrains which indicated that the earlier sharp squeeze on the living standard of the people had reduced the scope for any further immediate increase in the squeeze.

A second factor also contributed. And this was the struggle launched by the Left forces within the United Front to prevent, or moderate the extent of, administered price-hikes in a variety of commodities. The kind of boost which inflation would have got if these hikes had been carried out was therefore denied to it. It is thus the pause in implementing the `structural adjustment' agenda in this regard which accounts for the pause in inflation.

The nineties have seen both inflation squeezing the working people, and an accentuation of unemployment. The latter, as already mentioned, has been a result of the shift of acreage from food to non-food crops, of import liberalisation that has led to a demand-switch away from domestic producers, and above all of cuts in public investment and in public development expendiure geerally. The Central government's total development expenditure as a proportion of GDP at market prices declined from 12.54 percent in 1985-6 to 8.08 percent in 1995-6 (RE) and 7.74 percent in 1996-7 (BE). Since government expendiure has a crucial employment generating effect, especially in rural areas, this reduction has bee employment-contracing.

The form of such contraction has been a decline in the ratio of non-agricultural to agricultural employment in rural areas. The reason is obvious: since agriculture is a sort of "residual sector" towards which the unemployed and underemployed workers gravitate, fluctuations in development expenditure by the State resulting in corresponding fluctuations in employment opportunities (which are in a proximate and direct sense ouside agriculture), manifest themselves through fluctuations in the ratio of non-agricultural to agricultural employment.

The rise in the prices of essential goods and the decline in

employment opportunities have together meant an aggravation of poverty under `structural adjustment'. The head-count ratio of poverty for rural India moved as follows for 1989-94.

Table 6: Poverty in Rural India

Jul 1989- Jun 90	34.30
Jul 1990- Jun 91	36.43
Jul 1991- Dec 91	37.42
Jan 1992- Dec 92	43.47
Jul 1993- Jun 94	38.74

Source: Utsa Patnaik and Abhijit Sen, "Poverty in India", CESP Working Paper, JNU.

A comparison of immediate pre-`structural adjustment' levels with those following `structural adjustment' clearly shows an increase in poverty in rural India. Apologists for `structural adjustment' deny this fact by using the following argument: apart from 1993-4 all the other figures are based on a "thin" smaple on the basis of which no valid inferences can be drawn; but if we compare 1987-8 with 1993-4 which are two years of large sample surveys then we find a decline in rural poverty from 39.60 percent in 1987-8 to 38.74 in 1993-4. The problem with this argument is that 1987-8 was not only a drought year when the poverty ratio goes up anyway, but also too far back to permit any inference about the impact of `structural adjustment' on poverty. For the latter purpose we have to take some immediate pre-`structural adjustment' years as the base for comparison. And since for these years we have only the `thin' sample we have to make the comparison on the basis of the `thin' sample. And the conclusions here are unambiguous. Since these conclusions are in line with the trends regarding per capita foodgrain availability which have declined on average between pre- and post-`structural adjustment' years and regarding prices and employment, as discussed earlier, they have to be taken as robust.

Accompanying this increase in poverty there has been a cut in the ratio of social sector expendiure to GDP (Table 7).

Table 7: Social Sector Expenditure of Union and State governments

(Percent of GDP)

	Education and Culture	Health, Water Supply and Sanitation
1989-90	3.36	1.26
1990-91	3.25	1.23
1991-92	3.12	1.19
1992-93	3.04	1.17
1993-94	3.04	1.19
1994-95 (RE)	3.00	1.17
1995-96 (BE)	2.84	1.12

Source: Alternative Economic Survey 1996-97

Vulnerability to Speculation

The effect of `structural adjustment' is evident not just in the fact of stagnation or growing poverty and unemployment or the growing desperation in wooing MNCs to overcome the infrastructural shortages. It is evident above all in the increased vulnerability to speculation of the Indian economy. Notwithstanding all the hype about direct foreign investment inflows into the economy, the actual inflows under this head have been minuscule, not more than $ 2 billion per year on average. What has come in larger measure however is speculative finance capital in the form of `hot money' on the basis of which our current reserves (on Oct.24, 1997) of $26.3 billion have been built up. But as the experience of the East and Souh-East Asian countries has demonstrated, this speculative capital can totally destabilise the economy in a very short-time without there being anything objecievely wrong with its performance. A credit-rating agency `downgrades' the economy (for reasons it alone knows!), or a rumour about an impending devaluation is floated, or a Finance Minister is changed, or a government announces some programme of expendiure, and `hot money' starts flowing out, bringing the economy to a crisis, and heaping misery on the people.

The operation of speculative finance capital represents the ultimate irrationality of capitalism. It makes the livelihood of millions dependent on the whims and caprices of a few speculators. It sacrifices the livelihood of millions of people in order to appease a few speculators, so that their `confidence' in the economy is not undermined. The real crime of `structural adjustment' and of our domestic ruling classes who have embraced it under the directive of the agencies of international finance capital, such as the IMF and the World Bank, is that they have opened the economy up for the operation of these speculative tendencies, which essentially negates democracy, freedom, national sovereignty and the exercise of the will of the people.

The Alternative

Extricating the economy from this mire is as necessary as it is tricky. The advantage which India has is that our currency is not as yet fully convertible, thanks to the massive democratic opposition to convertibility that was built up in the economy even before the dangers of it became manifest in East and South East Asia. On the other hand however the very crisis afflicting the Asian economies puts pressures on our currency which makes the task of a regime change for insulating the economy against the depredations of speculators a tricky one, since any such attempt may itself start a speculative run against the currency and precipitate a crisis. The immediate task is to halt any further attempts towards financial liberalisation, autonomy for the Reserve Bank, and convertibility of the currency. Gradually the economic space available to the State can be widened.

The alternative economic strategy must be built on the basis of four main elements: egalitarian land reforms which, apart from their economic effects in terms of releasing productive forces in agriculture and expanding the domestic market, would mobilise the rural masses behind the new strategy; a revival of public investment, especially in infrastructure, which is designed to promote agricultural growth as a means to expand domestic food availability as well as the domestic market; vastly increased public expenditure on education, sanitation and health, which would eliminate illiteracy, provide free and compulsory primary education to every child, and ensure minimum health standards for all; and much greater accountability of the State which can be ensured inter alia through the devolution of decision-making and resources to elected local bodies functioning under direct popular scrutiny.

A revival of public investment, a substantial step-up in public expenditure on education and health would of course need resources, and these have to be mobilised essentially through direct taxation, apart from a lowering of interest rates and thereby of the interest burden on the State. Bourgeois economists and commentators who talk incessantly about the burden of subsidies, including food subsidy, do not say a word on the far more substantial transfer payments which are being made to rentiers in the form of interest payments. And yet while the subsidies have some productive or redistributive role, these transfers have no such jusificaion. Likewise bourgeois economists keep hailing reductions in direct tax rates. But India has the tenth position from the bottom among all the countries when it comes to the ratio of central government tax revenue to GDP. (The inclusion of state government tax revenues would not make any qualitative difference to the picutre). The nine countries below India are: China, which has a completely different fiscal system, four oil-rich Middle Eastern countries, which do not need tax revenue, and Myanmar, Burkina Fasso, Paraguay and Guatemala. Leaving out China and the oil-rich countries we are therefore fifth from below, the other four being abysmally poor countries. The proposition about India having high direct tax rates which "stifle enterprise" is a complete myth.

Foregoing tax revenues in he name of attracting direct foreign investment is the height of folly. Direct foreign investment comes in, if at all, only to those economies which are already growing rapidly. One can therefore say that public investment would "crowd in" rather than "crowd out" direct foreign investment, as it would domestic private investment. The reactivation of public investment in the context of an alternative strategy and on the basis of an alternative correlation of class forces is the need of the hour.