Marxist, XXXVIII, 1–2, January-June 2022

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The Indian Economy Under Neo-liberalism

I. THE CONTRADICTIONS OF THE DIRIGISTE REGIME

Though a drift towards 'liberalization' had started since 1985, neo-liberal 'reforms' were officially introduced in India in 1991. Earlier, India had a *dirigiste regime* where the economy had high levels of protection from foreign goods, controls over cross-border capital flows, state support for the petty production sector including peasant agriculture, and a significant public sector. The public sector operated in mineral extraction, where it was expected to be the custodian of 'national interests' and in finance where credit was provided to agriculture and a few other 'priority sectors' at subsidized interest rates; the public sector was also instrumental in developing infrastructure and basic and heavy industries where private capital was not forthcoming and also where the country needed to acquire the technological know-how to break the stranglehold of metropolitan capital over the economy through its control over technology.

The basic aim of the *dirigiste regime* was to break the domination over the economy of metropolitan capital which had been a feature of the colonial era and to usher in a 'national' development that was relatively autonomous of imperialism but in which the bourgeoisie would also participate. But bourgeois participation was not supposed to make the path of development into a classical capitalist one; for this reason strict controls over the operation of capital were imposed by the state through a system of investment and import licensing.

The *dirigiste regime* had many important achievements to its credit which are worth recalling, since neo-liberal propaganda has tended to underplay these achievements. The rate of industrial growth accelerated considerably compared to the colonial era, as did the rate of GDP growth. At independence most industrial goods including even simple consumer goods, not to mention capital goods, were being imported; but the *dirigiste* period saw substantial import substitution. And an extremely striking development was in the realm of foodgrain production, a development that usually goes unnoticed.

The last half-century of colonial rule had seen a sharp drop in per capita foodgrain production and availability in British India. The average annual net per capita foodgrain availability which had been 199.0 kilogrammes during the quinqennium 1897-02 had dropped to 148.5 kg. for the quinquennium 1939-44, and fell further to 136.8 kg. during 1945-46 (Blyn 1966)[1]. While the colonial government did not undertake any significant 'land augmenting' measures (which would raise productivity per unit of net sown area) during this entire period, the diversion of acreage from food to cash crops had led to such a remarkable drop in foodgrain production and availability.

The post-independence *dirigiste regime* reversed this trend through investments in irrigation, high-yielding variety of seeds developed in government laboratories, a massive extension network that brought improved agricultural practices to peasants, the provision of subsidized inputs including credit (after the nationalization of banks in 1969) and a system of assured remunerative prices (instituted after the mid-sixties) at which food crops were procured by the government and distributed through the public distribution system at lower, subsidised, prices. As a result, not only did the recurring famines that had devastated the country in the colonial period disappear completely, but per capita foodgrain availability reached 180.2 kg. for the triennium 1989-91, that is, just on the eve of the introduction of the neo-liberal regime.

But even though agricultural, especially foodgrain, production grew rapidly compared to the colonial era, the growth-

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[1] Net availability is calculated by taking: production *minus* seed, feed and waste (usually a fraction, one-eighth, of production) *minus* net exports *minus* net addition to government stocks (since data on private stocks are not available).

rate was not large enough to bring about a high GDP growth. In an economy where state intervention prevents the emergence of any demand constraint, if non-inflationary growth, that is, growth not involving regressive income distribution, is to be ensured without significant food imports (which are ultimately unsustainable in a large country), then the primary constraint upon it arises from the growth rate of foodgrains. This can be seen from the following identity:

$$(g_f - n) = e\,(g - n)$$

where g is the growth-rate of overall income, n the rate of population growth, e the income elasticity of demand for foodgrains and g_f the rate of growth of foodgrain supply. If large-scale imports and inflation (and the ensuing regressive shift in income distribution) are to be avoided, so that e becomes a weighted average of income elasticities of particular groups with the weights constant because of the absence of any regressive distributional shift, then with the rate of population growth given in the short to medium term, g gets constrained by g_f. The growth process under *dirigisme* did get constrained by the growth rate of foodgrain production[2]. There would be bouts of inflation when excess demand was created in the non-rationed foodgrain market, leading to cuts in government expenditure and hence temporarily in growth rate: the overall constraint on growth therefore was exercised by the growth in foodgrain production (P.Patnaik 1972).

The *dirigiste* period saw on average a 3.5 to 4 percent growth rate in GDP which meant a per capita growth rate of 1.5 to 2 percent. This not only compared unfavourably with the East Asian countries, but, what is more, entailed a rate of growth of employment (about 2 percent per annum) that barely kept pace with the rate of population growth, which meant a continuous increase in the backlog of unemployment. This created a certain disillusionment on the part of the mass of workers and peasants that had entertained much higher expectations from independence.

A major reason why agricultural growth was not higher than what was achieved was the absence of any radical land redistribution. The effect of the land reform measures that were undertaken was to eliminate the very large landowners who were generally absentee, with compensation, and to confer ownership rights to their larger tenants against payment. But while this brought about a change in the composition of the owners of the top 15 percent of operational holdings, paving the way for a development of capitalism *within* agriculture (though not through the encroachment of the capitalist sector from outside upon the agricultural sector), the proportion of the total land area under this top 15 percent remained largely unchanged (U. Patnaik 1972a); the landless and marginal cultivators did not see any increase in the proportion of land they could claim as their own.

This meant that they lacked the incentive and the means to introduce better agricultural practices; what is more, the possibility of introducing newer organizational forms, such as voluntary cooperatives and collectives that could have raised land productivity considerably, through a wider adoption of better practices and through using the unutilized labour in the countryside for capital formation, as had happened in the Chinese communes (U.Patnaik 1988), remained unexploited. True, land productivity and cropping intensity increased after independence for reasons we have mentioned earlier, but the potential increase that could have occurred was not realized, which constrained the overall growth-rate.

The untenability of the *dirigiste regime* also had another powerful reason which had to do with the process of globalization that was going on in the capitalist world. The outpouring of dollars owing to the persistent current account deficit that the U.S. was running in the post-war period because *inter alia* of maintaining a string of military bases across the world, made banks in Europe and the U.S. itself flush with dollars that under the Bretton Woods system were officially declared to be 'as good as gold'[3]. (Even after the end of the Bretton Woods system, following a brief period of turmoil, the

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[2] There can in principle be an alternative constraint on growth under a *dirigiste* regime (Kalecki 1972a). Even when foodgrain production is adequate and food stocks are growing, excessive luxury consumption by the elite may not leave enough resources for the government to undertake adequate investment for growth. A variation of this scenario is when there is no excessive luxury consumption, but artificially imposed fiscal constraints make the entire system demand-constrained, with both unused foodgrain stocks and unutilized industrial capacity. The foodgrain constraint however was in my view the binding constraint during Indian *dirigisme*. And the last of these possibilities, of the system becoming demand constrained, arose only under neo-liberalism.

[3] Under the Bretton Woods system the U.S. dollar was officially convertible to gold at $35 per ounce of gold.

dollar resumed its role of being a stable medium of wealth-holding, deemed by the world's wealth-holders to be as good as gold, even though not officially convertible to gold at a fixed price).

The metropolitan banks pressed for a removal of the barriers to capital flows, especially to financial flows, so that their funds could be profitably deployed anywhere in the world. Barriers were removed in Europe in the late sixties and early seventies, and in Africa and Latin America a few years later. The build- up of liquidity got a further boost with the oil price hikes of the 1970s. India resisted the removal of controls on financial inflows for a longer period of time but finally succumbed in the mid-eighties as a means of financing its balance of payments deficit. But once it had started on the slippery slope there was no stopping: a state controlled economy could not withstand the immanent logic of exposure to financial flows. And the example of the East Asian countries was dangled before India as vindicating the success of neo-liberalism, a claim that was patently false since these countries were not pursuing neo-liberal policies, but had a spurious appeal nonetheless.

There were internal pressures for 'liberalization' too, which arose from the urban upper middle class. Michal Kalecki (1972) had seen the *dirigiste regime* as an 'Intermediate regime', intermediate between capitalism and socialism, and characterized by non-alignment in foreign policy and State capitalism in economic policy; he had attributed the intermediate character of this regime to the fact that the petty bourgeoisie, consisting of the urban middle class and the well-to-do peasants in the countryside, and having an intermediate character between the bourgeoisie and the proletariat, constituted the ruling class within it. One would disagree with Kalecki's identification of the petty bourgeoisie as the ruling class; but what his analysis does show is the importance of the urban middle class (we shall analyse the peasantry later), which was a strong pillar of support for the *dirigiste* regime; it shifted its support to neo-liberalism because of the vast opportunities that were opening up for it under the latter, both because of the relocation of activities from the metropolis to countries like India and also because of the possibility of migration of educated and skilled manpower to the metropolis.

All these different pressures combined together and came to a head in 1991 when India faced a sudden balance of payments crisis. This crisis could have been tackled without a change of regime from *dirigisme* to neo-liberalism, but it was used as an occasion to push for a regime change.

The notable thing about the *dirigiste* regime is that income distribution did not become more regressive during its tenure. In fact, Chancel and Piketty (2017), using income tax data, show that it became better during its tenure: the share of the top 1 percent of households in the national income of the country reached its lowest level, 6 percent in 1982 before climbing back as liberalization unfolded slowly, even before 1991. No doubt, inferring income distribution for the population as a whole from income tax data is fraught with problems, but these findings cannot just be dismissed. The least one can say is that income distribution did not worsen over the *dirigiste regime.*

This regime in other words, though it yielded not as high growth rates as one might have wished, and did not overcome the problem of unemployment and poverty, had six major positive characteristics: it displaced metropolitan capital from its dominant position in the Indian economy; it improved per capita foodgrain availability from the abysmal levels to which it had sunk in the colonial period and thereby fed Indians better; it defended petty production and peasant agriculture from encroachment by metropolitan and big domestic capital; it prevented at the very least any regressive shift in income distribution; it greatly improved the level of self-reliance in the economy; and it nourished with all its limitations a broadly democratic political framework.

II. SOME POLITICAL ECONOMY IMPLICATIONS OF THE NEO-LIBERAL PERIOD

The hallmark of the neo-liberal regime has been relatively free movement of goods and services, and of capital, including finance, into the Indian economy. India does not have a convertible currency and hence capital flows into and out of the country are not *absolutely* free; there are still restrictions on Indians taking out funds, but foreigners can bring in and take out funds freely. Likewise, quantitative import restrictions are gone under the WTO, and tariff rates are lowered greatly, even below the WTO-permitted tariff-bounds.

As elsewhere, we have in India a situation of a nation-state facing globalized capital, and, not surprisingly, the State must accede to the demands of the latter in matters of economic policy, for fear otherwise of 'undermining the confidence of the investors' and starting a capital flight, or, at the very least, attracting insufficient financial inflows to manage the balance of payments. This itself entails an abridgement of democracy: the 'sovereignty of the people' that democracy is supposed to uphold gets replaced by the sovereignty of international finance. This was painfully obvious during the pandemic, when, despite the lockdown-caused acute suffering of the people, the government's rescue-cum-relief package was only about 1 percent of the GDP compared to 10 percent in the U.S. decreed even by Donald Trump. This attenuation of democracy, we shall discuss below, has proceeded much further of late, beyond the economic sphere, as neo-liberalism has actively promoted a neo-fascist political dispensation.

The shift in economic policy from *dirigisme* to neo-liberalism has been particularly notable with regard to the petty production sector, especially peasant agriculture: international agri-business now approaches peasants directly; the State-run extension services have been wound up; price support for cash crops that was extended earlier through several commodity boards, such as the Tea Board, Rubber Board, Coffee Board etc., that stepped in to buy the produce during price-crashes, has gone, since the 'marketing function' of the boards has been abolished (though price-support still continues for food crops); subsidies for inputs have been whittled down; subsidized credit for 'priority sectors' still exists on paper but the definition of 'priority sector' has been so widened that peasants get a minuscule portion of total credit and are forced to go to private moneylenders (or international agri-business) and pay exorbitant interest rates; investment in irrigation and rural infrastructure has diminished greatly because of tax-concessions to big capitalists and limits on size of the fiscal deficit as a percentage of GDP (non-Left state governments and the Centre have passed 'fiscal responsibility' legislation to institutionalize such limits); and the privatization of healthcare and education systems have forced all, especially the rural population, to pay exorbitant prices for such services.

This change in economic policy is indicative of a change in the nature of the State. The post-decolonization State, being a legacy of the colonial struggle, looked after the interests of many classes. While presiding over growing capitalism and hence furthering the interests of the bourgeoisie and the landlords (who were the harbingers of a junker-style capitalism in the countryside, even as the rich peasant beneficiaries of the land reforms represented an emerging tendency towards peasant capitalism), it also sought to protect to an extent the interests of the workers and of petty producers. The State in short, while presiding over a capitalist tendency, though admittedly a controlled capitalism, appeared to be above classes, looking after the interests of all. By contrast, the State under neo-liberalism exclusively looks after the interests of the domestic corporate-financial oligarchy and the urban upper middle class that now constitutes a camp-follower of this oligarchy, and of globalized finance capital, with which this oligarchy is integrated.

This exclusive preoccupation with the interests of the oligarchy and its supporters and of globalized finance capital is justified in the name of promoting 'development'. From a situation where the 'nation' was identified with a multi-class configuration, the 'nation' under neo-liberalism is sought to be identified with only the corporate-financial oligarchy and its upper middle class camp-followers (which include the techno-managerial elite, also covering spheres like finance, the bureaucracy and professional classes). The relationship of the 'nation' to the metropolis is no longer seen to be antagonistic, and the metropolis is no longer seen as being 'imperialist'; on the contrary, metropolitan capital is welcomed as ushering in 'development', even in the sphere of mineral resources from which it had been ousted with great difficulty all over the third world as part of the process of economic decolonization.

This change also entails a change within the society itself. The dividing line, the hiatus, is no longer seen as existing between the country (or the 'nation') and the metropolis (or imperialism), as was the case during the anti-colonial struggle; the hiatus now shifts to *within* the country, between the corporate-financial oligarchy (and its camp-followers) and the 'working people' consisting of workers, peasants, craftsmen, petty producers, fishermen, and agricultural labourers, who are seen as opposing 'development' when they put up any resistance against the take-over of their lands and habitats for 'development projects'.

There are two processes associated with this growing hiatus. One is a process of primitive accumulation of capital, that is, the dispossession without compensation, or with very little compensation, of those depending upon the land and the habitat that is taken over for 'development projects'; this constitutes primitive accumulation in a 'stock' sense. The second process is a squeeze on the incomes of the working people, which manifests itself in terms of an increase in income inequality, and which constitutes primitive accumulation in a 'flow' sense. Let us examine each of these processes *seriatim.*

Calling the takeover of land and of habitat (of the tribal population for instance for extracting mineral resources) 'primitive accumulation' would be disputed, since compensation is supposed to be paid for such takeovers. There are however two issues here: first, compensation is often not paid at all, or paid so late that by then its value has gone down greatly. But, secondly, in a traditional society ownership does not exist as a single integral right; there is a hierarchy of rights to the produce, and hence by inference, to the land that provides the produce, where even the 'attached labourers' have some implicit customary rights[4]. Compensation, if paid, is invariably paid only to those recognized as 'owners' but not to those who are explicitly or implicitly 'attached labourers'. The compensation paid therefore is invariably less than what is warranted.

As regards the growing inequality in income distribution, the same study by Chancel and Piketty which had found the top 1 percent of households getting 6 percent of the national income in 1982, found that the share of the top 1 percent had increased to 22 percent by 2013, which was the highest in the entire period since the income tax (on whose data the estimates are made) was introduced in India in 1922. This is a phenomenal increase whose reality cannot be ignored no matter how sceptical one may be about the use of income tax data for estimating income inequality. In any case, growing income inequality under neo-liberalism in all countries is by now generally accepted. More significant but less accepted is the growth in the incidence of *absolute poverty*, at least in India, in the neo-liberal era.

III. THE PERFORMANCE OF THE ECONOMY UNDER NEO-LIBERALISM

The neo-liberal period saw a significant acceleration in the rate of growth of the GDP, which in the early part of the current century reached 7 to 8 percent per annum[5]. There was thus almost a doubling of the GDP growth-rate compared to the *dirigiste* period. A number of factors went into this acceleration: the fact that the pent-up demand for a variety of luxury goods that had been unavailable earlier could now be satisfied, not just through imports but through import substitution; the relatively rapid growth in the world economy (though much less than during the so-called 'Golden age of capitalism') because of the dot-com and housing 'bubbles'; domestic stock market 'bubbles' that also boosted demand; and of course the relocation of activities from the metropolitan economies to India, not so much in manufacturing but in services (for instance the proliferation of 'call centres'). In fact the acceleration of GDP growth has not been on account of manufacturing, but rather of services. The weight of the secondary sector in GDP scarcely increased during the neo-liberal period compared to the 1980s.

Notwithstanding higher GDP growth, however, the extent of hunger in the country has increased. Per capita net foodgrain availability which, as we saw, had increased to roughly 180 kg. per annum at the end of the 1980s, has slightly declined since then to about 178 kg. until the eve of the pandemic; the decline had been quite significant earlier but there has been some recovery thereafter to bring it to its eve-of-the pandemic level. Considering the fact that the well-to-do sections would have taken a larger amount per capita, if not for direct consumption then at least for indirect consumption in the form of processed foods and animal products (where foodgrains enter as feedgrains), the per capita foodgrain availability must have *declined* for the working people or the majority of the population.

There is evidence for it in the data on calorie intake. Earlier, poverty in rural India was officially defined by the Planning Commission as lack of access to 2200 calories per person per day, and in urban India as lack of access to 2100 calories per person per day. From the data provided by the National Sample Survey (carried out on a large scale once every five years) the proportion of the rural population below this norm was 58 percent in 1994-95; it increased to 68 percent in 2011-12. The corresponding percentages for the urban population were 57 and 65 respectively (U.Patnaik 2019). There has thus clearly been an increase in the magnitude of absolute poverty (though the government meanwhile

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4 For a detailed discussion of this issue see Patnaik and Patnaik (2021), Indian Edition, Appendix to Chapter 17. This Appendix is not available in the New York edition.

5 For a discussion of India's post-liberalization growth experience see C.P.Chandrasekhar (2017).

has changed the definition of poverty from what it originally was). What is more, the 2017-18 findings of the National Sample Survey were so bad that the government decided to suppress them altogether: they apparently showed, according to 'leaked reports', a 9 percent *absolute* drop in the per capita real consumption expenditure in rural India between 2011-12 and 2017-18.

The fact that the expenditure on healthcare and education has gone up at the same time that larger proportions of the rural and urban populations have been falling below the calorie norms, has been used by official spokespersons to claim that falling below these calorie norms indicates a change in 'tastes' rather than an increase in poverty. But all over the world, pooled cross-section and time-series data show that an increase in per capita real income is associated with an increase in per capita cereal (and by implication foodgrain) consumption (Krishna Ram 2013). And in India's case, the privatization of education and healthcare systems has made these essential services so expensive that the working people are forced to cut back on foodgrain consumption to meet the expenditure on these services. The decline in real income of the working people which is inferred from the decline in calorie intake, constitutes therefore a valid inference. The fact that despite being an 'emerging economy' with high growth rates India occupies around the 100th rank according to the World Hunger Index (where only around 116 countries with extreme poverty are ranked), acquires significance in this context.

What, it may be asked, is the mechanism for the emergence of this 'wealth-at-one-pole-and-poverty-at another' scenario? Because of the withdrawal of subsidies and lack of price protection in cash crops, the peasantry has seen an absolute decline in its per capita real income; 300 thousand peasants have committed suicide over the last two and a half decades and many have left agriculture altogether to look for jobs in the urban economy. Between the 1991 and 2011 population censuses, the number of persons who were enumerated as 'cultivators' dropped by 15 million: they either dropped to the ranks of 'labourers' or migrated to cities in quest of employment, which is the other side of the primitive accumulation of capital mentioned earlier

But in the cities there are hardly many jobs. Even though GDP growth rate has increased notably during the neo-liberal period, the growth rate of employment has come down compared to earlier. Thus between 1993-94 and 2011-12, according to the National Sample Survey, the growth rate of employment was 1.3 percent per annum while between 1977-78 and 2011-12, the growth rate was 2.11 percent per annum[6]; the growth rate in the pre-liberalization period therefore was much higher.

The reason for this slowing down in employment growth despite an acceleration in GDP growth is simple: the relatively free imports have put pressure on domestic producing units to introduce technical progress which typically tends to be labour displacing. Since the rate of growth of employment is the difference between the rate of growth of output and the rate of growth of labour productivity, such accent on technical progress keeps down employment growth. This, together with the fact that the petty production sector remains sluggish throughout the period of neo-liberalism, accounts for the abysmal rate of employment growth (some have called it 'jobless growth') that falls even below the natural rate of growth of the work-force, let alone absorbing displaced peasants.

The result has been an increase in the unemployment rate, though this has manifested itself differently. In India one does not generally have a neat dichotomy between the employed and the unemployed. Apart from a very small proportion of the work-force in the organized sector, most others are casual workers and casualization has been growing. Growing unemployment therefore manifests itself not as a larger *number* of persons without jobs as a proportion of the work-force, but as more or less the same number of persons with *fewer working hours* per head. A given amount of work in other words gets divided among more and more people as unemployment increases. This means that growing unemployment takes the form of a reduction in the per capita real income of the work-force. Given what has been said earlier about the relationship between per capita foodgrain consumption and per capita real income, we can infer from the decline in per

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[6] In India several different employment concepts are used because of the complexity of the problem. The concept used here for calculating growth rates is 'usual status' which asks the respondents if they were working or available for work over the previous 365 days. If they were working or available for work for more than half the year then they are in the labour force; and if over the period when they were in the labour force, they were working for more than half of the days, then they are considered 'employed'. It is the rate of growth of employment in this sense that is being referred to here.

capita foodgrain consumption, which we argued earlier, that there has been a decline in per capita real income, and hence growing unemployment, over the neo-liberal period. The various strands of the argument in short hang together, and point to a decline in employment opportunities and a growth in hunger and poverty in the Indian economy in the neo-liberal period, precisely when the growth rate of GDP was accelerating.

IV. THE CRISIS OF NEO-LIBERALISM AND THE INDIAN ECONOMY

The period of neo-liberalism sees an increase in inequality at the level of the world economy and also within each country. The relatively free mobility of capital across countries, even in the absence of free mobility of labour, weakens trade unions in the advanced countries; they are in no position to demand higher wages for fear that such demand would encourage relocation of activities to low-wage third world countries where the existence of vast labour reserves, a legacy of 'deindustrialization' brought about in the colonial era, keeps wages close to a subsistence level. In short, in the neo-liberal period, even the wages in the advanced countries suffer from the baneful consequences of third world labour reserves. Because of this fact, though wages are not *equalized* everywhere, the vector of wages across nations becomes resistant to upward movement, as long as third world labour reserves continue to exist. And for reasons we have already discussed, these labour reserves do not disappear, but on the contrary continue to grow relative to the work-force, despite the relocation of activities, and even when the GDP growth rate remains impressive. Hence the vector of world wages, taking both advanced and underdeveloped countries, does not increase in tandem with the vector of world labour productivities, causing *an increase in the share of surplus in world output.* This is a phenomenon that also replicates itself at the level of each country, as we have seen for India.

Since the propensity to consume out of the surplus is generally lower than out of non-surplus incomes, such an increase in the share of surplus creates an *ex ante* tendency towards over-production. This *ex ante* tendency could be kept in check if State expenditure could be appropriately increased, *provided such increase in expenditure was financed either through a fiscal deficit or through a tax on the surplus earners.* (A tax on the working people, i.e. on non-surplus earners, does not help since they have a high propensity to consume, so that the increase in demand caused by larger State expenditure is matched by a decline in demand of the working people, making the value of the balanced budget multiplier near-zero). But while a fiscal deficit is frowned upon by globally-mobile finance capital, where even the U.S., let alone the European Union, finds it difficult to expand its deficit, taxes on the surplus earners, especially the capitalists, are eschewed under neo-liberalism. The *ex ante* tendency towards over-production therefore becomes realized *ex post*.

If it was not realized for some time, the reason was the formation of asset-price 'bubbles', the dot-com bubble in the U.S. in the nineties and the housing bubble in that country in the first years of the current century, which introduced an exaggerated wealth effect on aggregate demand. With the collapse of the housing bubble however no similar bubble has got formed, and the world economy has remained submerged in a protracted crisis and stagnation from which there is no obvious exit. Bubbles cannot be made to order, and the collapse of each bubble makes the formation of the next one that much more difficult, since economic agents learn from experience and keep the amplitude of the next bubble smaller.

This prolonged slowdown has had its impact on the Indian economy as well. Initially India responded to the collapse of the U.S. housing bubble by enlarging its fiscal deficit as an emergency measure which prevented its recessionary effects from manifesting themselves. But with the return to fiscal orthodoxy, the GDP growth rate has slowed down and the unemployment situation worsened. Our claim that unemployment worsened during the high growth phase and even more strongly during the slowdown phase may appear intriguing to many. But the point can be illustrated as follows: let n denote the rate of growth of the work-force, let m_1 denote the rate of growth of employment during the high growth phase and let m_2 denote the rate of growth of employment during the slowdown phase, then with $m_1 < n$, the employment situation will worsen in the high growth phase, and with $m_2 < m_1$ it will become even wore in the slowdown phase.

The unemployment situation had become quite acute even before the pandemic; the pandemic has only made it worse. In 2017-18, according to the National Sample Survey, the unemployment rate had risen to 6.1 percent, the highest it had been over the previous 45 years. What had happened 45 years earlier was the inflationary recession that had begun in the domestic economy but was then carried forward by the OPEC price-hike. Hence the fact that unemployment before the pandemic reached a similar level is significant.

Many blame some wrong measures adopted by the Modi government for the upsurge in unemployment, such as the demonetization of currency notes (in a foolhardy effort to curb 'black money') and the Goods and Services Tax that raised the tax-rates on the petty production sector and thereby crippled this employment- intensive segment of the economy. But the worsening of the employment situation, though compounded by such measures, was already occurring before they were adopted. Focussing on them alone distracts attention from the crisis of neo-liberalism and spawns a false pro-neo-liberal narrative.

There does not seem to be any clear way out of the slowdown caused by the crisis of neo-liberalism. The ability to bring down interest rates to stimulate investment via lowering borrowing costs (or even by stimulating a local asset-price bubble), is limited by the fact that the interest rate has to be sufficiently above the U.S. rate to be able to draw financial inflows to cover the balance of payments deficit; besides, investment appears generally to be quite interest-inelastic. The ability to use fiscal policy to stimulate the economy is limited by the fact that for such a policy to be effective, government expenditure has to be financed either by a fiscal deficit or by a tax on the rich (so that the balanced budget multiplier is positive), but both these ways of financing government expenditure are ruled out under neo-liberalism as international finance frowns on both.

It frowns upon fiscal deficits, which after all is why India has a Fiscal Responsibility and Budgetary Management Act limiting the central government's deficit to 3 percent of GDP. It frowns upon any heavier taxation of the rich, and, on the contrary, even advocates lower taxation on them as a means of unleashing the 'animal spirits' of the capitalists. The Indian government in fact has been following the latter advice and lowering the taxation of the rich, which, not surprisingly, has not had any stimulating effect on the economy (if anything it actually worsens the slowdown since such lower taxes have to be offset by higher taxes upon the poor to meet the fiscal deficit target and such inequity is crisis-intensifying). The hallmark of the crisis in short is that within the parameters of a neo-liberal economy the government can do nothing to overcome it.

V. THE ASCENDANCY OF NEO-FASCISM

The neo-liberal regime had initially obtained some support, even from the working poor, because *dirigisme* had not lived up to its promise. Even though during the tenure of the neo-liberal regime income and wealth inequalities widened greatly and even the magnitude of absolute poverty increased relative to the population, the high GDP growth rate kept alive the hope among many who suffered that they would ultimately benefit through its 'trickle down' effect. But with neo-liberalism getting into a crisis that has brought down the GDP growth rate, such a hope can scarcely be sustained any longer. A disillusionment has now set in with neo-liberalism among large segments of the population.

True, some important enactments were undertaken under the influence of the Left in the period between 2004-5 and 2009-10 when the central government of the day had to depend on Left support for survival, the chief of which was the 'Mahatma Gandhi National Rural Employment Guarantee Scheme' (MGNREGS), that promised one member of each rural household employment on demand for a period of up to 100 days in the year. This was against the drift of neo-liberalism and was quite limited in its conception anyway. But it has become even more limited over time: the number of days of employment offered has been generally much lower than 100 days and wage arrears have built up which have a discouraging effect on job-seekers. Nonetheless, it has been a source of some help to the working poor. Considering the fact that the figures for calorie intake mentioned earlier already take into account the impact of MGNREGS, the neo-liberal regime would have been even more disastrous for people without MGNREGS.

With the slowdown in growth rate and worsening unemployment, the neo-liberal regime now requires a different prop; the old prop that it would improve the lot of everyone in due course no longer convinces anyone. This new prop is provided by neo-fascism. A neo-liberal-neo-fascist alliance comes into being, which shifts the discourse completely away from economic issues to a hatred for the 'other', which happens typically to be some hapless minority group. This group is portrayed as being responsible for a historic 'slight' to the majority community for which revenge must be extracted; and if at all economic issues are discussed, then the roots of the economic problems are located in the earlier government's appeasement of this 'other'. In India's case the 'other' is the Muslim, and the appeal to the majority is in the name of Hindutva or Hindu supremacism. Underlying India's drift to neo-fascism is a new Hindutva-Corporate alliance.

The main Hindu supremacist organization, the RSS, was founded in 1925. It came to power, through alliances with other political parties, in the late 1990s; its rapid growth has occurred more recently with the active support and massive financial backing of the leading corporate houses and of the corporate-controlled media. This growth underlay the absolute majority for the party that fronts for it, the Bharatiya Janata Party (BJP), in the 2014 elections, as well as in the 2019 elections. At the level of the states, wherever this Hindu Supremacist party has not obtained a majority on its own, it has engineered defections from the majority party by using threats or monetary inducements.

Its agenda has been aggressively neo-liberal, taking away workers' rights, and opening the doors to corporate control over peasant agriculture, including by international agribusiness, which is reminiscent of colonial times. While in the face of fierce resistance by the peasants it recently had to withdraw (with no discussion in parliament) the three bills that had been passed (again with no discussion in parliament) earlier, its agenda remains completely unchanged. And the most significant part of this agenda is the destruction of the public sector, with state-owned enterprises being handed over 'for a song' to crony capitalists (who have become billionaires within a short span of time), or to metropolitan capital. There is thus a voluntary 'denationalization' or 'recolonization' of the economy, completely reversing the process of decolonization that had been attempted by the *dirigiste regime.*

While displaying all the characteristics that one associates with neo-fascist regimes, such as using repression against political opponents; letting loose fascist thugs on 'inconvenient' persons and on people from other religions such as Muslims and Christians; terming any criticism of the government as an act of 'sedition'; subverting the independence of the judiciary, the media and of the Election Commission; and undermining the autonomy and aloofness from politics of the bureaucracy and the police, which had been features of Indian democracy, neo-fascism in India has nonetheless proved singularly incapable of coping with the economic crisis. On the contrary, the measures it has pursued have the effect of accentuating the economic crisis.

Under classical fascism of the 1930s, the governments had pursued a policy of increasing armament expenditure, financed by borrowing, in the midst of the Great Depression. This had actually resulted in a recovery of those countries from the Depression (Japan being the first country to come out of it) long before the non-fascist capitalist world recovered from it (which happened only on the eve of the war when these countries also had to undertake military spending). The reason why the fascist countries could do so was because finance capital at the time was nation-based and nation-state aided and its closeness to the fascists permitted an increase in the fiscal deficit.

Today however when finance capital is *international*, its opposition to fiscal deficits even under fascist governments in particular nation-states, cannot be overcome; even the fascist governments therefore face the same hurdle as any non-fascist neo-liberal government does in stimulating the economy. What is more, the neo-fascist policy of shifting income distribution in favour of the corporate-financial oligarchy has the effect of accentuating the crisis, as does the policy of giving tax concessions to the corporates and *reducing* government expenditure in order to remain within the fiscal deficit target.

Unemployment therefore, far from getting alleviated, gets worsened. On its economic policy therefore, unlike classical fascism which had acquired a degree of initial popularity for having overcome unemployment (before the horrors of war had hit the people), contemporary neo-fascism can gather no such support. Its entire appeal must come therefore *solely* from the promotion of hatred against the 'other', which means that even if the democratic framework is not overturned altogether, newer and newer ways of demonizing the 'other' must be found; and of course even if perchance the neo-fascists are removed from office they would continue to remain in the polity and society, promoting a growing fascification of society, as long as the country remains trapped within the neo-liberal order.

VI. THE INDIAN ECONOMY AND THE PANDEMIC

The economy we have seen had already slowed down before the pandemic, with unemployment at a record high. But with the pandemic and the draconian lockdown that the Indian government declared in March 2020, at a mere four hours' notice, unemployment soared to astronomical heights. The lockdown had two notable features: one, no purchasing power was put into the hands of the households in general to compensate them for the loss of their incomes; and, two, no embargo was placed during the period of the lockdown on evicting tenants from the houses they had rented, irrespective of whether they could pay rents or not.

These were both measures adopted even by the Trump administration in the U.S. but not by the Modi government in India. As a result, literally hundreds of thousands of migrant workers who worked in urban areas suddenly found themselves without work, incomes and shelter, and were forced to trudge back to their villages where MGNREGS was the only activity they could fall back upon, but which at least gave them a tiny fraction of what they were earning earlier. In fact in the first quarter (April-June) of 2020, there was a massive 24 percent drop in GDP compared to the previous year's first quarter, with the employment intensive 'informal sector' which accounts for 85 percent of total employment and 45 percent of GDP, bearing the major brunt of this drop. The corresponding drop in the second quarter of 2020-21, even after the lockdown had been eased was 7.3 percent.

Since then there has of course been a recovery, as was bound to happen; but the magnitude of recovery has to be judged not with reference to the depths of 2020-21 but with reference to 2019-20, the immediate pre-pandemic year. And on doing so we find that the first quarter GDP of 2021-22 was still lower than that of the first quarter of 2019-20, and the second quarter's GDP was only 0.3 percent above that of 2019-20. Even if for the 2021-22 fiscal year as a whole the Indian economy witnesses a 10 percent growth rate over 2020-21 (which is higher than the 9.5 percent projected by several government agencies and which, we argue below, is a tall order), the growth rate over 2019-20 would still have come to only 1.97 percent, which is hardly a recovery of any significance.

Even the current recovery however is unsustainable. This is because even in the second quarter of 2021-22, when the quarterly GDP had caught up with that of 2019-20, the level of consumption was still 3.5 percent less. For consumption even to recover to the 2019-20 level there has to be a substantial increase in government expenditure or investment, whose multiplier effects can bring about such a recovery (nothing of course can be said about net exports). Investment will not rise unless there is a revival of consumption; and the rise in government expenditure will have to be large, which is unlikely anyway given the fiscal constraints, and even more unlikely now with the acceleration in inflation.

The problem is that during the lockdown, and even afterwards when incomes had fallen, many households had either borrowed or run down assets to maintain consumption because of the absence of any government transfers to them. Now there is an attempt to pay back those debts or to replenish assets (including cash balances) which is keeping down consumption expenditure (hence the value of the multiplier) in the economy. This very fact of sluggish consumption expenditure however will bring down private investment and hence nip the recovery in the bud. Many economists and progressive political parties have been suggesting transfers to households (at least to those not paying income taxes) for a few months in order to revive consumption; in short they are suggesting that the government should do now what it should have done during the lockdown but did not do. But since it accepts the fiscal constraint imposed by the neo-liberal regime, it will not attempt any transfers. Its fascistic character becomes apparent here: it hopes to win popular support by building a temple over a demolished mosque which itself was an act of vandalism that the ruling party had undertaken, rather than by removing the genuine hardships of the people.

The acceleration of inflation in India predates that in the U.S.; it was initially caused by tax-push factors, especially taxes on oil and petro-products which have a price-inelastic demand, to keep the fiscal deficit in check. But the acceleration in U.S. inflation will have an additional effect *through the balance of payments*. As the U.S. raises its interest rates, *ceteris paribus* there will be a drying up of financial inflows into the economy, causing a depreciation in the exchange rate of the rupee vis-à-vis the dollar which will make imports, especially of oil and petro-products, more expensive, and will be passed on in the form of higher prices in general. In fact even the very announcement of accelerated inflation in the U.S. and the anticipation of a rise in the U.S. interest rate has already caused a loss in the external value of the rupee, which can only gather further steam when the actual U.S. interest rates rise. And the anti-inflationary measures that the government of India will adopt, in the realm both of fiscal and monetary policy, will truncate the economic recovery even further, raising unemployment in the economy to still higher levels compared to pre-pandemic levels.

The Indian economy in short, which was already crisis-ridden before the pandemic is set to witness even more difficult times within the neo-liberal regime, and the neo-fascist government is in no position to provide any relief from these difficult times; it will hope to ride the storm only through an even more vicious attack on the 'other'.

Neo-liberalism which, even when it was yielding high rates of GDP growth, was associated with growing unemployment and a rising ratio of the 'absolutely poor' to the total population, has now brought the Indian economy and polity to an even sorrier pass, as it has run into a dead-end. The unemployment rate that had reached higher levels than at any time in the previous 45 years before pandemic, climbed sky-high during the pandemic, and now even the recovery from these depths is likely to be incomplete. The obvious means of effecting a recovery, namely to revive consumption through budgetary transfers to households, cannot be adopted because of the opposition of finance. And even such recovery that would have otherwise occurred is now threatened by the acceleration in the U.S. inflation rate.

The alliance of neo-liberalism with neo-fascism, which in India takes the specific form of a Corporate-Hindu-supremacist alliance, has had a devastating impact on India's democracy but will not overcome the economic malaise; it will resort to spreading even more hatred against the Muslim minority, and other excluded groups. A country once proud of its secular and democratic tradition now witnesses attacks on churches by fascist thugs even on Christmas Day, with the government resorting to a deafening silence. The tendency in liberal circles is to see these neo-fascist attacks in isolation from the neo-liberal trajectory of growth; but this, as we have argued, is untenable: the massive financial support extended by the Indian monopolists to the ruling Party only underscores this point. It follows that any removal of the neo-fascist party from power must be accompanied by an attenuation of neo-liberalism, for otherwise the current conjuncture will not be transcended and the neo-fascists will not only come back to power, but, even when out of power, will continue with their hate agenda. There has in short got to be an alternative economic agenda to neo-liberalism for overcoming neo-fascism.

Overcoming a neo-liberalism regime will not be easy. The minimal step that a government wishing to do so will have to take is to have capital controls, so that its efforts to implement a pro-people economic agenda are not thwarted by capital flight. But this will reduce the inflow of finance to levels inadequate for financing the current account deficit on the balance of payments, which will therefore necessitate the imposition of import controls. The imposition of capital and trade controls, especially the latter, quite apart from hurting the very classes for whose benefit the alternative agenda was to be implemented, will also bring about metropolitan hostility. This hostility will manifest itself in the form of trade sanctions that will compound the country's problems further.

Fortunately because of the *dirigiste* period the country has developed a capacity for diversified production, so that, other than oil imports, it will not be too inconvenienced by trade sanctions (and oil imports can be arranged through bilateral deals with other countries that are in a similar situation of facing metropolitan sanctions). Nonetheless there will be considerable pains of transition, and the country will need internal resilience as well as international solidarity to get over this period.

Any overcoming of neo-liberalism will necessarily foreclose the possibility of exports providing the stimulus for growth; it will therefore have to be growth on the basis of the home market and here the growth rate of agriculture will play a crucial role. Nicholas Kaldor (1978) had distinguished between two kinds of export-led industrialization: exports abroad and exports within the country from the non-agricultural sector to the agricultural sector. For large countries like India the latter is not only desirable, for it does not lead to any sector being left out of the ambit of the growth process, but also essential if that country is trying to get out of the neo-liberal regime.

But it is not just an increase in agricultural growth that is required, but one that is accomplished without any primitive accumulation of capital, either through a corporatization of agriculture, or through evictions from land for setting up industrial or real estate projects. For higher agricultural growth therefore, what is required is 'land-augmentation' through land reforms and through a change in the pattern of organization of agriculture to develop voluntary cooperatives and collectives (for which too land reforms are necessary in order to achieve a degree of egalitarianism in the countryside).

Such cooperatives or collectives, or rural local self-governing institutions (LSGIs), will also have to step in, apart from the public sector, for starting industrial enterprises (in the manner of the Chinese 'Township and Village Enterprises'). Industrialization in other words need not be synonymous with corporate industrialization even in a society that has not transcended capitalism. Such cooperative, collective or LSGI ownership of industry can also eliminate the possibility of any primitive accumulation of capital.

But it is not just an alternative trajectory of development that is required, but the conscious commitment to a welfare state which is also what the Constitution of the country visualizes in its Directive Principles of State Policy. And such a welfare state must not become a largesse on the part of the state, but must be a matter of right of the people. In particular, in addition to the fundamental political and social rights given under the Indian Constitution, there must be a set of fundamental economic rights which are both universal and legally enforceable.

One calculation shows that if five fundamental economic rights, a right to food (at a nominal price), a right to employment (failing which the citizen must be paid a full wage), a right to free and publicly-provided quality education, a right to free publicly-provided healthcare through a National Health Service, and a right to a living non-contributory living pension and disability benefits, then it would cost, in addition to what is being spent at present under various heads towards these ends, an additional 10 percent of the GDP. The financial resources for this expenditure can be raised through only two taxes: a 2 percent wealth tax levied on the top 1 percent of the population, and a 33 1/3 percent inheritance tax on any wealth passed down by these top 1 percent of households (Patnaik and Ghosh 2020). Thus just these two taxes levied only on the top 1 percent of households will be adequate to finance a rights-based welfare state in India.

While defeating neo-fascism at the political level is absolutely essential, this defeat can be put on a firm footing only if progress is made towards transcending neo-liberalism by instituting at least these rights. Only then can we safeguard Indian democracy and secularism, which are not only desirable objectives in themselves but without which it will also be difficult to keep the country together.

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