UNIT 6 POLITICAL ECONOMY OF DEVELOPMENT

Structure

6.1 INTRODUCTION

India, an ancient civilisation and a richly endowed sub-continental country, is home to about one-sixth of humanity. An overwhelmingly large part of its people live a life of extreme poverty, though there is a tiny minority which enjoys a standard of living at par with the highest in the world. This is not the only sense in which India can be seen to be a country of extreme contrasts. A country full of diversity and plurality, its encounter with what is generally termed modernity occurred under the aegis of its colonial domination, based on political subjugation at the hands of Great Britain, the pioneer of modern industrialisation which dominated the processes of modernisation-industrialisation for a long period of world history. Though India successfully liberated itself from the colonial rule by means of a mass, popular struggle for independence, it is still striving to be able to win for its more than a billion strong population a standard of living, dignity and empowerment commensurate with its resource endowment, rich heritage, democratic polity wedded to the highest values humanity has been able to articulate to this day and rich human element. It is this arduous struggle for achieving for her citizens what is their long denied due which constitutes the basic challenge for the political economy of development. Given the history of how India came to lag behind and lost valuable historical opportunities in an increasingly inter-twined world and its internal processes became dysfunctional and even counter-productive over time, the political economy of development of India has to be viewed and analysed in the context of the global forces, processes and situation. The primacy of the internal dynamics of the Indian situation has to be constantly kept in view.

6.2 THE GLOBAL DIVIDE

Poverty, unemployment, disease, squalor, frequent disasters, crime and vast inequities are openly visible but vary widely in different parts of the spaceship earth, including India. Though no part of the globe is entirely free from these avoidable problems, in over two-thirds of the world billions of human beings constituting the global majority face this grim fate to a disconcertingly large extent. Even in the rich, or high income countries, like the ones which are parts of the OECD, despite their very high average incomes, there are pockets of extreme poverty, frequent and often rising unemployment (along with a certain per centage considered by some to be irreducible), increasing inequalities of income, wealth, socio-economic power, rather high degree of social insecurity and rampant problems of alienation and anomie. These problems are very acute and can be considered the defining, main characteristics of hundreds of countries, of course, including India, often variously described as underdeveloped, developing, less developed, industrialising or backward or third world countries. The usual, official exchange rate based on per capita income statistics is misleading and a better picture is captured by the international comparative data based on estimates of purchasing power parity. On both these counts, an overwhelmingly large majority of the world population lives on a daily income of less than one US dollar and two US dollars respectively (See Tables I and II at the end). The high income countries produce nearly four-fifths of the global gross national income, while the low income countries are able to take less than 4 per cent of the global gross national income (GNI), and the middle income countries share is about 17 per cent of the total. It may be noted that the high income countries' population is about 15 per cent of the world population of nearly six billion. As many as over two-fifths of humanity lives in the low income countries while the middle income countries provide citizenship to about 45 per cent of the world population. There is a considerable number of poor, deprived, discriminated and distressed persons in the rich countries, just as there is a sprinkling of rich, well-to-do and better-endowed persons in the poorer countries. While there is a good deal of commonality of life experience, values, thinking and socio-economic strategies between the rich in both the poor and the rich countries, comparable links and empathy between the poor in the two sets of countries are not much in evidence.

Statistics about the vast disparities rampant in India are not authoritatively available. However, some idea of the prevailing disparities can be gleaned from some well-known facts about India. For one thing, agriculture continues to remain the main source of livelihood for nearly two-thirds of the population, a situation that has shown extreme rigidity, but the absolute number of people dependent on agriculture is now nearly three times the number which was dependent on agriculture at the time of independence. But over this period of over half a century, the share of agriculture in GDP has dwindled from about three-fifths of the total at the time of independence to a little below a quarter presently. At the same time, per capita net sown area has shrunk to 0.13 hectare, which is mere one third of what it was in 1947. Thus, despite the Bhudan movement and legal- administrative attempt to redistribute land, in effect, the concentration of land holdings has increased to such an extent that broadly speaking it may be said that the top 20 per cent of the land-holders control roughly 80 per cent of the cultivable area. Little wonder, in spite of some productivity gains the comparative position of the vast majority of the cultivators, of whom over 80 per cent are small and marginal farmers with non-viable tiny plots of land and inadequate and limited access to the other complementary resources, has become worse-off. The position of the landless farm workers, of which an overwhelmingly large part come from the socially and economically worse off and discriminated dalits and tribal communities, who constitute the lowest rung of India's highly differentiated and stratified social order is the worst as along with income poverty, they who constitute a little less than a third of the rural population, have income insecurity reflected in inadequate and uncertain availability of gainful, productive work and are deprived of the most essential social-economic basic facilities and services like an appropriate roof over their heads, drinking water, literacy, sanitation facilities, access to medical services, electricity and food security. On the contrary, how a tiny minority is enjoying a life of wealth and luxuries of international standards is too well-known to need any statistical elaboration. In any case, even on the basis of a highly misleading concept, the official estimates place the number of people below the poverty line at some 260 million and the level of literacy is below than the sub-Saharan African countries who are considered the least developed countries of the world. In view of the above, it is pertinent to ask: how meaningful are the income comparisons across time, countries and various socio-economic groups?

6.3 POVERTY OF INCOME COMPARISONS

The estimated income levels and differentials do not fully capture the socio-economic conditions of existence of the people. This is so for many reasons. For one thing, income is related to market-centric activities. But many critical and important activities, including those connected with material aspects and bearing on wellbeing, social role and esteem are non-market activities and involve family, community, state, civil society organisations, etc. These largely non-market activities have little to do with income flows. Then, market does not incorporate everyone; differentiates people on non-functional, unjust criteria and excludes a large number of people for varying lengths of time from participation in its ambit of activities and transactions. Many objective and subjective factors are not amenable to the logic and working of the market. Markets are intrinsically prone to manipulation by some against the interests of many. Thus the market processes of generating income flows tend to benefit some at the cost of the others. For example, use of natural resources like land, water, forests, etc. in the process of production can deprive some of their livelihood without any or inadequate compensation. Take the case of multi-purpose irrigation and hydel power projects in India. They submerge vast tracks of land, often with forest cover, natural forests of great antiquity frequently. These submerged areas lead to displacement of thousands of tribals and farmers and other poor people, disrupting not just their livelihood but the entire pattern of their lives. Whenever some rehabilitation efforts have been made, which is not always the case, they fall far short of full and reasonable compensation, leave alone proper rehabilitation and sharing of the gains of the project or some alternative. While a huge cost is incurred by these refugees of the so-called development, the beneficiaries are the people in the plains who are generally a part of India's small organised sector elite and their hangers on. The national income statistics surely shows a large gain from such inequity-fostering 'development' .It accrues to a small section who in no way compensate the poorer people who are made worse-off by this kind of development reflected in the GDP figures. Clearly, these projects add to the GDP as also to the woes of the peoples which no national accounts statistics ever captures. The last fifty years in India saw dozens of such projects. These worsened people are generally the poorer ones.

Thus market-generated income conceals its hidden, as well as non-monetary costs. Market generated income based comparisons take a highly limited and truncated view of life, society and future. The market tends to be highly myopic. Then, the costs of participation in the market processes as also of exclusion from these processes are not fully, correctly and realistically captured in the price and income figures. The effects caused by external economies and diseconomies too make income an imperfect indicator. After all who can deny the heavy costs imposed by the denudation of forests, degradation of land, pollution of water and air which even a country like India with relatively modest modern industrialisation has suffered over the period its GDP has started moving up after the first half of the 20th century. Many non-economic aspects are no less important to individuals, groups and societies for what may be treated as the essence of development but remain outside the purview of the market based income-generating activities. In other worlds, the market based income is an incomplete, partial and misleading indicator and, in some senses, can be inimical to general social wellbeing.

Then, national income aggregates and averages take the nation as a unit, as though it were internally a single, undifferentiated entity (like a black box) without internal dynamics and differentiation. Nations, like India, have vast internal differentiation in terms of control over, access to and quality of social, economic and cultural resources, as well as in terms of status and power; their historical experience too shows many different patterns of ups and downs. To these differences, one may as well add a regional dimension in a country like India with her sub-continental size. Then, even if different nations are not entirely unique, differences across nations far outweigh similarities. It is often said about India that it is a nation of stark contrasts, a country for which the only sustainable generalisation is that hardly any generalisation is valid. Hence it can be highly misleading to compare nations, their level, pattern, dynamics and future of development on the basis primarily of income data. The same would hold good, e.g. for inter-State comparison of per capita SDP among the Indian States. The apparent precision of such national and State income data is sham as its calculation is based on many unrealistic assumptions, imprecise sources of information and rule of thumb conventions especially in poor countries with a large unorganised sector. This is especially true of India where over 92 per cent of the work force derives their livelihood from the unorganised sector activities which contribute a little less than 60 per cent of India's GDP.

Income flows may be generated by production (regularly or on an ad hoc basis) or made available, by means of a transfer even with a guaranteed measure of regularity in many different ways. But in this process those who disburse income come to dominate and the recipients get dominated and subordinated. This involves the income transfer recipients in an unequal relationship of disempowerment and dependence, making them feel or explicitly forcing on them a feeling of inferiority. Such power relations are crucial in any society and even among nations. One possible reason why the rural poor have not been able to make any big dent in their levels of deprivation, even though crores of rupees have ostensibly been spent for their welfare and development over the past five decades is that these top-down programmes are paternalistic and make a sharp dichotomy between the benefactors and beneficiaries. To take another example, the "aid" recipients nations have to get the approval of the "donor" nations for their plans and policies on a regular, on-going, institutionalised, formal basis. Such nations compromise their national sovereignty and interest for the apparently easy option of getting concessional loans, access to technology, etc. but barter away in the process their vital national interests especially of those who are not able to participate in donor- approved plans, programmes and policies. One has just to recall the ignominy India suffers year after year when it sends high-ranking officials to what used to be known as Aid India Club in order to win the approval of the so-called donor countries in exchange for their commitment to provide some development assistance in the form of official development assistance (ODA) which has been a small fraction of India's development outlays. Often such relatively low-interest-bearing loans were contracted for projects involving no foreign exchange outgo and were sought for sustaining India's chronic balance of payments deficit. The point is that though useful to a limited extent, international income comparisons, whether for the present or for long historical periods, are quite inadequate to define the essential questions and problems of the political economy of development.

Nevertheless, it is the main features of the global social, economic, political and cultural divide which constitutes the problematic of the political economy of development. Of course, the internal differentiation and inequalities of a country are related to the persistent and growing international inequalities and form a major component of the development discourse. However, in order to be able to discuss these issues properly we have to deal with the legacy of the persistent popularity and official level-excessive almost exclusive-recognition of the income-related yardsticks of development . It is no doubt true that income flow or access to regular supply of goods and services is essential and cannot be ignored and have to be ensured. The moot point is: can it be made the exclusive, all-important development factor, as an essential pre-condition for every thing else? An important factor responsible for taking such an exaggerated, and one-sided view seems to be the monopolisation of the development issues by economics in the form of a popular, technically rigorous and influential sub-discipline called economics of development, especially as it evolved in the rich countries. This discipline was substantially shaped and developed by the Establishment of the rich countries and the UN organisations dominated by them, of course, with a considerable contribution by the independent academics from several parts of the world, including India, who had little formal linkages with the ideological, cultural and technological apparatus of the rich nations. This is an approach which perpetuates the hegemony of those who can, by means of their command over resources and institutions, control the process of income growth along with cornering a better part of the incomes generated. Hence the existing power centres and controllers of the economy portray income growth as the essence of development. As a result, an apparently techno-economic perspective on development, with accent on quantifiable aspects and macro economic variables like savings, investments, GDP, external balance, general price level, factor mobility, etc. came to dominate development related academic discourse, practical policy-making and international development activities and 'co-operation'.

Naturally, this exercise carries a strong imprint of the mainstream neo-classical economics which was concerned more with justifying, perpetuating with growing strength and selling the existing reality as rational rather than to explain it, let alone transform it for the good of the hitherto marginalised and excluded especially as the latter would have it. Hence, its concern with the growth of national income and following the patterns followed earlier on in the rich countries. It is basically to serve the processes of capital accumulation under the control of and in the image of the big corporates based in the rich, early-industrialised countries. The processes of industrialisation, technological innovations and capital accumulation contributed to the power, prosperity and global dominance of a minority of people from the rich countries (the North) with some junior role (in the global context) by the top governing and influential strata from the poor, non-industrialised (in the modernisation related sense) countries. The outcomes of these processes were captured in the per capita income (average of national income) which thus bears no necessary positive relationship to the development and welfare of those not directly initiating and controlling capital accumulation, technical progress and expanding production processes.

Thus, it follows that GDP in various forms is not only an overly quantified indicator, but is also a highly imperfect, imprecise, incomplete, biased and misleading indicator. Given the historical legacy of multi-dimensional inequalities, it basically camouflages the interests of the big international capital dominating the rich, industrialised countries (tendentiously or mistakenly described as developed or advanced countries and following this usage the term has been adopted by many through sheer mental inertia). This is because the processes of capital accumulation, industrialisation along with consequential social relations, international relations, life styles, technologies, marketisation based cultural products and the symbols derived from or related to them mainly further the interests and power of those who are commanding these processes of capital accumulation and industrialisation. These processes exclude and marginalise a much larger number than the number they incorporate and empower and in the bargain, increase the dependence of the former majority on the latter minority. The Indian experience of modern industrialisation, both during the colonial period and the post-independence era, clearly shows that the share of industry in both the GDP and in the work force, remains a small fraction not only of the age-old agriculture, but also of the rapidly expanding services sector. In fact, the organised industrial sector employment, of over 400 million strong workforce of India, was in the year 2001 barely 7.43 million, that is under 2 per cent of the work force in both the public and private sectors taken together.

Thus one can see why there are powerful forces ranged in support of the perpetuation of national income as the indicator of development and economic growth (i.e., growth of Gross Domestic Product, GDP) as the most important objective and the very essence and definition of economic development. Not that the glaring and thoroughly exposed weaknesses, infirmities and distorted world view associated with treating economic growth as synonymous with not only economic development but development as such have not been recognised by many of the growth enthusiasts themselves. As correctives, they add some additional indicators to the GDP /GNP band wagon, qualify the growth indicator, even devise numerous alternative quantitative indicators (like quality of life, human development index, basic or minimum needs, social indicators of development, or growth with justice, comprehensive development framework, etc.), but in various direct and/or circuitous ways continue the adherence to and prominence of GDP or GDP based indicators and theories. If the centrality of GDP growth were to be sacrificed and replaced by alternative definitions, measures, indicators, etc. which are concerned with and reflect the conditions, interests, aspirations and institutions of the presently disadvantaged, discriminated and deprived people, the top-brass of both the industrialised and poor countries would be on way to losing their power and hegemony. No such harakiri can be reasonably expected from anyone. The other stakeholders have themselves to articulate their interests and values and define development in ways indicating that the people really matter. Then only would development would be of the people, for the people and by the people.

6.4 GLOBAL SOCIAL REALITY: ESSENTIALS OF MALDEVELOPMENT

But in order to see the impact of over half a century long unidirectional, no-holds-barred conscious pursuit of GDP growth by numerous means and strenuous 'national' and global efforts, (of course, in the context of the inherited, mostly colonial stagnation and retrogression legacy) let us first take note of some select aspects of the socio-economic conditions in the world especially in the poorer parts, in terms other than GDP. Since GDP growth was expected in terms of the hypothesis of trickle-down processes to benefit, incorporate and gradually to empower the poor in due (unspecified) course of time, the living conditions of the people in general were expected to gradually improve. The operation of the trickle-down process, via the elemental labour and commodity market processes of the spread effects via backward and forward linkages, it was recognised, may not go far enough to be able to deal with the enormity of the poor and deplorable living conditions across countries and continents. The trickle-down view is based on the supposition that as a result of growth and its diffusion, both poverty and inequality are reduced by gradually incorporating the masses from the rural and unorganised sectors. But, as a perceptive economist has shown, "(G)rowth can reduce poverty and inequality, growth can reduce poverty and increase inequality, growth can increase both inequality and poverty." It all depends on composition of output, factor proportions in production, relative prices, location of production state policies, etc. The same would apply to employment generation as well. Hence it was stipulated, basically as an after- thought, including by some vocal proponents of the growth and market based approach, that there would remain many people who cannot be benefited and enabled to attain the levels of living made possible by the scientific and technological revolution (STR) of our age (may be, it was argued, owing, *inter alia*, to their proclivity to multiply fast and in large numbers, added and abetted by their non-material, non-forward looking, hidebound and/ or other- worldly attitudes and values). They thought of various pull-up programmes and policies, i.e., state-sponsored activities, to provide income, assets, social consumption, especially social services, including some measure of social security, for those who remain either on the fringes of the market system, or are constrained to remain outside it. In fact, the history of the last half of the 20th century provides evidence of many large-scale attempts of state-directed poverty-alleviation programmes, particularly after discovering that the golden era of growth during the 1950s and 1960s saw an embarrassingly massive number living in sub-human conditions of absolute poverty. This is the genesis of well-known McNamara, Mahbub-ul-haq thesis, which found many other enthusiastic endorsers and adopters. Following the processes of fostering and accelerating growth by numerous strategies, policy interventions, direct involvement, etc. the trickle-down and pull-up processes did produce, in absolute terms and even in comparison to the colonial period outcomes, fairly impressive results. However, who had borne how much of the costs and benefits of the growth experienced is a question rarely asked as also the question regarding the absolute number of the poor, deprived and discriminated even after moving these economies to a much higher GDP growth path compared to the virtually stagnation phase seen during the long colonial period. However, the facts of changes which occurred globally during the last half of the century clearly bring out the widening income chasm along with worsening social, physical, moral and cultural conditions of existence for an increasing number. No one can seriously claim meaningful gains in terms of removing poverty, unemployment, inequalities, ecological imbalances and disempowerment of the masses (and peripherals of the poorer countries) except for the gung-ho over the East Asian experience.

Many studies by perceptive social scientists, as also a number of official documents, especially those coming from the Planning Commission, recognise that the preceding analysis is fully correct for India as well. The Tenth Five year Plan clearly states: "There are several aspects of development where progress has been clearly disappointing. Growth in the 1990s has generated less employment than was expected. The infant mortality rate has stagnated at around 70 per 1000 for several years. As many as 60 per cent of the rural households and about 20 per cent of the urban households do not have a power connection. Only 60 per cent of the urban households have access to drinking water in their homes, and far fewer have latrines inside their houses. The situation in this regard is much worse in the rural areas. Land and forest degradation and overexploitation of ground water is seriously threatening sustainability of rural households and food production. Pollution in the cities is on the increase." (p.2). One can quote from many authentic sources, like the World Development Report and the National Sample Surveys to bring out many aspects of the deteriorating social conditions of existence for the majority of Indians. Even the conservatively arrived at figure of over 260 million persons living below the officially defined poverty line in terms of the inability to obtain the minimum essential calories every day is only 100 million less than the country's population in 1951 when the per capita availability of food was higher than is the case presently. Over 45 million is the number of registered persons looking out for employment opportunities, while the official figure of unemployment rate is close to 8 per cent of the workforce.

Similar conditions prevail over much of Africa, Asia and Latin America where the majority of the world population lives. And let it also be remembered that there is a third world in the midst of every so-called first world country. Even now the life expectancy in the poor countries is 19 years less per person compared to the rich countries. Far more cruel is the fact that 13 times more children per thousand live births die in their infancy in the poorer countries over the level seen in the richer ones. (All sources are from the World Development Reports.) The poorer countries tend to spend on, highly unevenly and perversely distributed health services a paltry 4.5 per cent of their rather low GDP for a many times higher population compared to almost double, 9.7 per cent, of many times higher GDP, for far fewer number in the rich, mostly former colonial powers. Similar low levels of expenditure on education are seen in the poorer countries both in absolute and relative terms compared to the North. Largely token, imitative and non-functional education in the poor countries gets reflected in low levels of literacy and low and inappropriate skills along with rusting and/or disappearance of traditional skills. How flimsy are the literacy levels attained by means of special drives is illustrated by the fact that many of those declared as 'literate' relapse in a short course of time to illiteracy! Even on the basis of comparing income and other "social" indicators, the World Development Report (2001) maintains that: "Even if we achieve the goal of cutting global poverty ratio to half, the number of people living in extreme poverty will fall only by a third ! China and India will see the largest improvement, but in sub-Saharan Africa the number will rise. Europe and Central Asia where the number of extremely poor people rose during the transition period, should return to 1990 levels of poverty. Even under the most optimistic assumptions in 2015 there are likely to be 2.3 billion people living on $2 a day or less that represents poverty in many middle income countries". Clearly, the existing reality and likely future both give rise to serious misgivings about the rationale of persisting with the prevalent paths of 'development' or more of the same. This is not to undermine the attainment of partial, limited, costly and top-sided gains. The point is that better alternatives can be sought and pursued which can avoid the negative features inimical to the interests of the majority of humanity, i.e., escape maldevelopment.

6.5 AGENDA OF THE POLITICAL ECONOMY OF DEVELOPMENT

Thus there is a clear recognition of the inability of growth-cum-poverty reduction policies to realise the potential opened up by the scientific and technological revolution (STR), resource availability (physical, financial, technical, human, organisational) and the basic humanistic value-structure ostensibly supported by almost all the major schools of thought and ideologies. The basic question facing development theories now is that despite over two centuries of modern economic growth based on industrial revolution of various vintages and over half a century of highly mobilised national and international endeavours, fairly limited positive as also perverse anti-development outcomes have been obtained. Moreover, the limited positive gains remain confined to a select few. Even this has been obtained at an incalculable economic and non-economic cost even to the 'beneficiaries' in terms of moral, social, political, psychic, aesthetic, communitarian aspects of life. Moreover, massive, multi-faceted deprivation, degradation and dehumanisation has become the fate of the vast majorities who were made to carry the cross of modernity and industrialisation. Thus, on balance, it may not be an exaggeration to treat the global growth and industrialisation of the last five centuries as a case of mal- or perverse development. Development as a normative, holistic, social process and outcome is, by definition, and in its essential logic, inclusionary, humanising, empowering, continuous and based on justice and freedom, has to be the concern of the political economy of development (PED) or development studies. Given the above-mentioned identification of the problem of development, it is clear the PED has to have an approach different from that of conventional or mainstream development theories. Surely, many elements and insights of the mainstream theories would be of great help to the PED, but by means of their creative, selective adaptation and reinterpretation. Many correctives, reinterpretations and alternatives have been proposed in response to the theoretical inadequacies and operational failures of the development policies derived from the growth paradigm. Employment, basic needs, redistribution with growth, capabilities approach etc. emerged as alterations, or corrections to the GDP approach. However none of these approaches seem to have identified the basic problematic of the development debate. The Table III (given at the end) borrowed from Frances Stewart and Severine Deneulin (2002,65) gives a summary overview of these alternatives.

Generally, the development theories have been addressed to those who can or ought to intervene for organising/accelerating development. It means national and sub-national governments, market entities, national and international formally organised groups, generally called non-governmental organisations (NGOs), but better treated as civil society institutions, were expected to respond to and make use of the development theories. Or make the road while travelling. By and large, the state and market institutions have been the major foci of theories, controversies and policy advice concerning development. Though the state-centricity has many limitations (like negating or downplaying, even restricting individual initiative fostering dependence, fostering excessive centralisation and paternalism, neglecting bureaucratisation, taking the nation-state as the unit of analysis, ignoring state character and politics etc.) the poor and the deprived tend to see in the state a saviour; an entity in which the people in general can hope to have a voice and hand, at least eventually and may be at a certain remove disenchantment with both the state and market led to directing attention to civil society institutions. Among these, often it is the NGOs which mistakenly were treated as synonymous with civil society. The PED requires that in addition to the state and market, it should address the entire range of civil society institutions and should not remain focused exclusively on the state or the markets or NGOs. It is a fallacy to identify PED with collectivism or neglect of individuals. But yes, the PED does discard methodological individualism which treats the real and legal persons as autonomous operating entities.

The interest group coverage of the PED which studies societies with their multiple disaggregations is quite diverse and comprehensive. Since the processes of development are holistic the subject matter of the PED has to be comprehensively concerned, in a historical perspective, with the entire complex of the main institutions, structures, attitudinal and value premises of social individuals along with their interactive processes so as to point out their potentials and pitfalls. Of course, a holistic integrated approach too has of necessity to work in terms of abstraction from the secondary and relatively less important in a given context and has to operate in terms of key variables. It has to draw on the historical experiences of the alternative patterns, processes and trajectories of development in order to help explain the present situation and stage of development, isolate the key variables, their mode of interaction along with facilitating and retarding factors. Evidently, none of this would acquire the necessary edge and purposefulness unless one is able to identify in an integral manner the major players in the development processes and their values and interests. These processes are historical, organic, integrating various facets like the economic, political, social, cultural and ecological and, of course, are subject to influences from outside the national borders. Their normative ethical aspects cannot be ignored. The range of institutions from micro level to meso, macro and global levels, historically inherited ones and newly emerging or created ones, with all their diversity and commonality, contribute in no small measure to the tough challenge facing the theorists, analysts and practitioners of development. Drawing on a number of sources and historical experience of many countries over the last few centuries, we try to present an overview of some theories of the political economy of development.

6.6 SOME IMPORTANT ASPECTS OF THE POLITICAL ECONOMY: THEORIES OF DEVELOPMENT

Compared to the mainstream economic theories of development the PED takes a rigorous, historical and deep-rooted view of the genesis, accentuation and perpetuation of the adverse and but avoidable state of affairs most of the world is facing in the diverse forms, particularly the citizens of the countries of Asia, Africa, Latin America as well as the poor in the rich countries. In fact, at one level, certain nations are finding themselves in such unenviable positions; at another level, it is the great majority of individuals and variously constituted groups and classes who have been disempowered. The theories of development have to find common ground in the midst of this diversity so that theories can become applicable to each one of the specific situation in its historical conjuncture. Thus the theories of development are concerned equally with the fate, status and functioning of the people, the institutions and values in the rich as well as the poor countries in their international interaction as well as to the internal relationships and dynamics within the countries. Unlike the ahistorical and linear view of lack or inadequacy or distortion of development, especially in terms of the inadequacy and lack of proportion between different factors of production (mainly inadequacy of reproducible physical capita *vis-á-vis* the labour force and the lower productivity vintage of the technology embodied in the available capital) which is treated as a kind of situation akin to pre-or prior state of the present day so-called developed countries, the PED takes an historical view of the socio-economic conditions of different people and countries as a product of the then prevailing conjuncture of resources, technology, institutions, values and attitudes. According to such a perspective, many of the present day poor countries were on the then prevailing frontline, especially China, India, etc. while the North was far behind. Thus the question becomes why, how and when the reversal of roles, situation and status or in one word, relative national power came about, rather than do the ahistorical and unrealistic exercise of backward extrapolation of present levels of GDP and population and work out the developmental lags of various poor countries *vis-à-vis* the presently rich, industrialised countries. A concomitant feature is that similar to the international differentiation and disparities and relative disempowerment, there took place an exacerbation of similar traits domestically, especially in those countries which lost out and became laggards internationally. This factor too calls for an explanation logically and historically in a manner inter linked with the international phenomenon. This approach and procedure also has the implication of avoiding the ethnocentric or North-Centric trap of defining the developmental state of the countries dubbed under-developed (developing or less developed) as the mirror image of the not-too-distant past of the present rich countries. This model of imitative, catching-up development or industrialisation denies the role of history, culture, freedom or independence (autonomy and autocentricity) natural endowments, changing geo-political factors and the independent processes of adaptation and development of technologies of the countries who could not become the early beginners on the path to the so-called modernity and came to be dominated and dependent.

Historical analyses of the proto-industrialisation, agrarian changes, industrial revolution, political and military hegemony of the Western countries, especially their maritime capabilities and power along with the active developmental role of the mercantilist states which played a big role in primitive or prior accumulation of capital, cultural, social and religious transformations, political upheavals changing the socio-political balance of power, etc. in Europe spread over a period of some five centuries were critical to the emergence of technological breakthroughs during the 18^{th} and 19^{th} centuries which heralded the era of modern economic growth and growing inequalities, nationally and internationally. The political, economic and cultural domination of the African, Asian including India, and Latin American countries was not simply the other side of these changes in international relations, as the domestic situation in these countries too contributed to their sub-ordination. The way Japan escaped this misfortune of domination and denial owing to internal dynamics underscores the suggestion that the global factors were actively assisted or worked in conjunction with the domestic factors. It is too complex and lengthy a subject to go into the processes which empowered some countries (notwithstanding their internal, largely non-functional differentiation), while impoverishing and subjugating a much larger number of countries and an overwhelmingly large number of their people. Empirical studies along some such lines for each country have to be undertaken. The main point is that it was a combination of diverse factors which in an inter-related manner created the great chasm among nations and peoples within the nations leading to prosperity for some and penury for the many. The long-term impact of these processes and their unwholesome outcomes for the poor countries was seen in the form of stifling of the positive, symbiotic linkages between various aspects of their social existence in the poorer countries, leading to worsening material, cultural and socio-political conditions. They became declining countries with impoverished and disempowered people.

For instance, the state was a potent instrument in the industrialisation process by way of creating both internal and external conditions for economic growth, industrial expansion, providing supporting services and facilities to entrepreneurs, inventors, traders, modernising artisans, etc., making the domestic and international conditions conducive to orderly functioning and expansion of economic activities, managing crises, distortions and contradictions. From ensuring cheap supply of inputs, including labour, to profitable sale of the output, protecting technology, ensuring access to profitable investment opportunities, providing markets for their expansion, protection against foreign competition, use of muscle power for ensuring access to cheap supplies, the state's benign presence was critical at every step in the rich industrialised economies. Obviously, the market forces too operated, but their deficiencies were made good and their strengths were encashed by a careful and friendly government. For a variety of reasons, many mainstream, development economists too recognise the critical part played by the state. In India where dozens of feuding monarchies were involved in fratricidal infighting, lacking any understanding of the emerging global challenges at around the time a new wave of internationalisation was sweeping across continents under the influence of the nascent processes of modern industrialisation, great historic opportunities were missed.

A comparative historical analysis of the experience of many countries would suggest that the state-market relative roles controversy is not about the extreme position of wholesale acceptance of the one and denial of the other. The question is about their relative roles in improving/ deteriorating the conditions of nations, communities, individuals/firms, etc/ *vis-à-vis* the others in the process of development. But interests groups based ideological and political factors gave birth to extreme, conflicting and even mutually hostile positions, which are, in effect, neither fruit-bearing nor light-bearing.

The result of such approaches was seen in many forms. Some theories blamed imperialism as the sole culprit for the global divide and asymmetrical relationships and the tremendous human, social, economic and psychic costs it imposed. On the morrow of de-colonisation, others viewed the erstwhile hegemonic, exploitative powers as 'partners in progress', willing to share their capital, technology, managerial-organisational expertise, as poverty anywhere was viewed as a threat to prosperity wherever it existed. A whole series of variables like capital accumulation, supported by international capital movements in various forms, technology transfer, extension services, etc. were treated as components of development cooperation. Many rigorous and sophisticated models for fostering savings, investment, industrial enterprises, exports, human capital formation and skills, etc. were advanced. Some role was also assigned to the creation of equitable land ownership for facilitating agricultural and industrial growth. Different types of development planning models were advocated for mobilisation, co-ordination and adoption of a long time-horizon. This was the classical industrialisation path based on borrowed product-mix, technology, capital (finance), entrepreneurship and management. Many different ownership and management models like public sector domination, private sector domination, foreign capital domination and various combinations and permutations of the three (various mixed economy models) formed parts of development literature.

This pattern of capitalist, mimetic, sub-ordinate or (asymmetrically) linked industrialisation was termed as a continuation of dependency relationship under formal/juridical national sovereignty. It was opposed as economic imperialism or colonialism without occupation or voluntary colonisation. Its opponents argued for revolution and de-linking, rather than gradual, evolutionary growth/development.

They maintained that under capitalism there may take place tremendous changes in productive forces unleashing wide-ranging gains in productivity across sectors and regions, but in an uneven, unsteady process entailing heavy and unequally borne costs and heavily concentrated sharing of the gains, its private ownership based corporatised social relations would become increasingly centralised and concentrated. As a result, it acquires a narrow national and social base of persons, families and firms in the command of the economy. It works to the detriment and deprivation of increasingly large number of nations, persons, and social groups as the process of extended reproduction through investment (whether in a balanced or unbalanced package) innovation satisfied the demands of the resource holders and excluded the rest. The narrowing base of command over capital, technology, finance, etc. extends to the cultural and political spheres. The poor are increasingly dominated and determined by the early industrialised super-rich countries and their power holder corporate bodies. These kind of arguments became the basis for a complete break from the capitalist world system, with some help from the socialist, centrally planned economies and mobilisation of their own workers, working poor and the intelligentsia, including at times sections of the business classes. Many versions and subportrayed capitalist industrialisation based on and deriving support from the presently powerful and resource-holding classes as well.

It was argued that the potential surplus in these former colonies and classes of these views emerged as in the case of the theories which similarly placed countries is way above the actually mobilised surplus . Similarly, poorly mobilised labour force was also treated as a source of potential surplus. Thus a case was argued for unshackling the economy from the stranglehold of former colonial powers and their mega multinational corporations (MNCs). Obviously, it involved diminished role for the indigenous counterparts of the multinational capital. These policies were not for a closed economy but certainly pleaded for a different, more egalitarian and broad-based new architecture of the international economic relations, which was eventually reflected in the UN resolution on the New International Economic Order (NIEO). The socialist block in the cold war era also gave support to such theories but instead of arguing for socialist revolution as the path to development (which was put on hold), they mostly argued for a transitional stage of non-capitalist development. The latter implied creation of large and growing state sector, modern industrialisation, high priority to basic, capital and heavy industries and increasing self-reliance, that is the national capacity to pay for one’s international transactions.

What is really important but generally ignored is the feasibility and desirability of patterns of imitative, catching-up industrialisation and modern growth. The delinking, selective de-linking, or symmetrical re-linking schools accepted the need and desirability of going in for the same industrial and production structure as is prevalent in the rich countries, except for changed ownership and control, consequent changes in management styles and practices, a different sequence of intra-sectoral industrial growth, viz., the priority to heavy, basic and capital goods industries and a more autocentric pattern of international economic relations. This stand puts heavy weight on a changed management system to give socially acceptable and desirable outcomes primarily on the basis of a changed pattern of ownership from private and private corporate to public (state) ownership. Clearly the possibilities of changed outcome in terms of product-mix, technological choices, labour relations, management styles, responsiveness to social needs, ecological considerations etc. are limited when a similar pattern of industries is adopted under two different ownership and management systems.

Thus employment, production of goods suitable for persons with low income-price frontier, shares in factor incomes, role and place of workers, regional pattern, ecological awareness, etc. become the issues which get subsidiary and derived consideration rather than independent, autonomous responsiveness to them. This lowers the priority of issues which have broader social bearing *vis-à-vis* sectional interests of those who hold considerable social and economic power. Such, sectional/ sectoral/ narrow 'development', essentially in terms of GDP indices involves unjustified and undesirable sacrifices, leading, essentially, to further enriching the rich and impoverishing the poor. The preponderance of the informal/unorganised sector, whether it emerged as a survival strategy by those who were left out or marginalised by the growth-centric processes and/or remained as a remnant of the primordial legacy of the period of stagnation and certainly is a fount of hidden resources and expression of the capabilities inherent in the poor, remained largely unrecognised in the dominant development models. On the contrary, these models or theories tended to postulate the gradual incorporation of these archaic forms by the modern, high productivity sectors. The Indian case has shown that it is the unorganised sector which provides the dynamic element of the economy providing livelihood to an overwhelmingly large part of the population estimated as high as over 92 per cent of the work force.

It may be mentioned however, that many 'reformed' concepts, processes and agents of development try to combine the growth of the economy simultaneously or subsequently with the task of reducing/removing the factors which make the emerging reality involutionary, narrow-focused and, full of heavy social costs. They continue to cause widespread disenchantment (while the GDP indices may show impressive gains). However, it has to be recognised that the insights about techno-economic aspects of the processes of expansion, improvement, transformation, as evolved by various 'development' theories, retain their limited specific value and validity. But the unfinished agenda of development, the distortions engendered by them and the avoidable human and social costs dictate the necessity of the attempts to change the content and substance of development according to wider social perspective, recognising conflicts, trade-offs, predatory tendencies as well as commonalties, mutualities and symbiotic linkages through processes which, instead of stifling human personality and potential through limiting/distorting the choice space, expand and help flowering of the human potential in a harmonious social milieu. Among the former category of reformist development theories and techniques mention may be made of various macro economic models of overall, sectoral and regional growth, inter-industry relationship models, balanced and unbalanced growth theories, big push theory, basic needs theory, growth with justice theories, autocentric growth theories, etc. The main point is: they become aids to decision-making and implementation, but broader, more basic social forces and organic unity of social structure rarely acquire primacy in these theories and models.

At this point, it is pertinent to bring in the questions raised and responded by another branch of partial, sectoral theories of development. Our reference is to various theories of social and political development. The PED would hardly be at ease with, or accept as relevant and proper such partial, truncated, limited context, isolated theories. But again, the essential message emerging from these theories is to emphasise the organic unity of the social phenomenon. More particularly, it is quite naïve and a legacy of excessive economism to consider production, productivity, cost of production, etc. as efficiency related 'economic' issues, as different from employment, education, health, social security, gender-issues, child welfare, etc. as 'social'. Similarly, the role of political and administrative processes are placed in the box of development administration and when it is extended to include question of grassroot participation, relative and absolute social justice, forms and methods of governance and choice of representatives, these are taken as questions belonging to political development. These are the results, *inter alia*, of excessive identification of growth with development and show the influence of academic division of labour and specialisation in the academic sphere of course, with their patrons and supporters in the social system. The PED attempts to evolve a unified integrated social science perspective on the question of development. The process of evolution, refinement on the basis of practical feed back and as a result of academic interaction concerning the PED is still in its infancy. The alternative development, post-development, anti-development and anti-modernisation schools are more an outcome of widespread disenchantment with the mainstream theories and models of economic development than systematically, comprehensively evolved set of relevant ideas, theories, concepts, etc. The need to draw heavily on development history for evolving development theories cannot, in any case, be over emphasised.

The adverse effects of the prevalent approaches to development are too well-known to need reiteration. As a result of the partial, specific discipline (mainly economics) based approaches, many parts of the world witnessed distorted, aborted, partial, violence-ridden, unbalanced, non-sustainable, iniquitous, socially costly and environmentally dangerous and/or destructive changes in many spheres of social and individual lives during the last century, especially in its later part. India too underwent such an experience. True, these far-reaching and swift changes did serve some sectional interests pretty well, especially from a short-term point of view. But the diminishing and negative returns from these non-sustainable changes (often described as development) did not go unnoticed.

The actual working and results of the GDP growth paradigm can be graphically illustrated in terms of the behaviour, both autonomous and induced, of capital accumulation, along with the role of international resource 'transfer' or more precisely, capital movements across national borders.

6.7 CAPITAL ACCUMULATION: ROLE AND LIMITATIONS

A direct result of identifying economic growth with the growth of output was the assignment of critical development/industrialisation role to capital accumulation. Many consider the relative inadequacy of the capital stock and slow growth of capital formation as the main cause of low income, poverty and backwardness. Hence capital accumulation, i.e., pushing up the rate of savings and investment (along with embodied advanced technology) was treated as the key developmental variable and locus of development policy and planning. Early development economists like Arthur Lewis and the stages of growth theories maintained that a transition to a high savings and investment rate economy lays down the basis for self-sustaining growth of income. Various policy instruments based on both Keynesian and Post Keynesian macro economic theories were honed for accelerating capital accumulation. While more capital does normally contribute to a higher flow of output, both theory and actual experience show that the relationship is neither a certain, one-to-one relation, nor always a positive and fixed one. Moreover, the direct and indirect effects of the production of such capital-based incremental incomes are not always positive and desirable as we saw while discussing the limitations and inadequacy of income-related indicators. The wide divergence, between capital output ratios and their volatility across nations, industries, periods of time, sectors, etc. give reason to believe that positive rates of growth of capital formation cannot always and necessarily be associated with increasing output flows. Many different types of reorganisation, restructuring, policy interventions etc. are possible to increase the income and welfare levels for both individuals and communities with and/or without additional capital accumulation. Many such interventions, both redistributive and expansionist, are independent of physical and financial capital formation. However, over a long period, the role of capital formation as a necessary condition for increasing the flow of goods and services cannot be denied. A number of other factors and circumstances intervene in order to determine the effect of capital accumulation. The theory of X-efficiency is concerned basically with such effects. Hence it is a factor which by itself cannot be treated as decisive. Even the prospects, rate and form of capital accumulation are contingent on a host of economic and non-economic, past and present factors, including the expectations about the future. Embodied and disembodied technology, existing proportion between land, labour, capital, technology and relative factor prices, social political and economic institutions, volume and pattern of demand, entrepreneurial mental make-up (the animal spirits), global configuration, etc. are among the scores of factors which make capital accumulation itself a dependent variable. In this context, one may recall the situation visible in India's organised, especially the organised industrial sector, which in spite of being the beneficiary of disproportionately large stock of capital and of the most advanced technology, contributes a relatively small part of employment and GDP.

Then, along with the domestic factors, like the inherited socio-economic structures and institutions, international factors and environment too exert a powerful influence on capital accumulation (its rate, pattern and management), especially global inequalities, dynamic comparative advantage, international division of labour and global power balance, especially the distance between nations in terms of economic and military might. The greater the productivity differential of a country *vis-á-vis* the rest, the smaller its absolute and relative size, the lower its existing technological capabilities and the more it aspires to become like the higher productivity countries, the more difficult it is for the lower-end country to undertake non-exogenous, autonomous capital accumulation Of course, the prospects may change dramatically if a qualitatively different non-imitative development path and pattern are adopted. The point is: capital accumulation is itself a dependent variable impacted by a large number of economic and non-economic factors. The pattern of capital accumulation, its institutional organisational form and structure, technological form, etc. are critical to the determination of its role in the processes of change and transformation. The conventional, mainstream development economics has an obsession with capital formation (as seen in the literature on growth models and determinants of contribution to GDP). This is basically under the influence of GDP growth based imitative, catching-up industrialisation paradigm. It refuses to recognise that the past successful emulators, who not only caught up with the forerunners but even excelled many of them had only a relatively small gap to bridge, had similar socio-economic and cultural background, were political rivals in international geo-politics with a strong nationalistic urge to catch-up and excel, and were lucky enough to be favoured by a number of internal and external propitious factors. As of now, for the present day poor, late industrialising, ex-colonial countries with a vast income, assets, technology gap, legacy of colonial exploitation and denudation, having a huge backlog in physical and social infrastructure, the capital accumulation-based imitative, growth path would tend to increase the gap and strengthen and perpetuate dependence .For sometime it was quite popular to cite the case of the East Asian tigers as cases of successful catching up. But recent events and deeper analyses have shown that even ignoring the special and unique circumstances which gave these economies (in fact, two of them being tiny city states and one also a direct colony are hardly relevant in any international comparative perspective) their short-lived gloss, are not at all cases of independent, autonomous, people-empowering, holistic and just development which the poor and weakened economies can take as their role models.

It is true that both time-series and cross-section data for a number of countries show a strong association between long-term changes in the rate (and also technical and organisational forms) of capital accumulation. But this evidence leaves open the question of the determinants of the rate and pattern of capital accumulation, including the impact of income itself on capital accumulation.

6.8 INTERNATIONAL CAPITAL FLOWS

The above conclusion squares well with a concomitant of the theories which assign primacy and decisiveness to capital accumulation as the developmental variable. According to this concomitant proposition the poor, less developed, late-industrialising countries with low technological capabilities and weak states, have to depend on international capital 'transfers' from the rich, early industrialised countries in order to break free from the vicious circle of low income, low-savings, low capital accumulation, and hence low income, operating in a cumulative manner.

Ever since the end of the Second World War, especially after the US President Harry Truman's oft-quoted Inaugural Speech, recognising 'underdevelopment' and accepting the challenge of 'development' (in effect, an attempt to make the so-called underdeveloped world a poor asymmetrically-linked carbon copy of the rich, early industrialised countries), the policy of capital transfers has been an important fulcrum of development economics and policy. The World Bank as a multi-lateral agency along with its regional affiliates are engaged in the highly lucrative business of what is called development finance. Encouraging international capital flows in various forms like official development Assistance (ODA), i.e., concessional loans, grants, foreign direct investment (FDI), portfolio investment, external (private account) borrowing, trade credits, etc., is considered a prominent plank of international development co-operation both by the recipients and the 'donors'/lenders/investors.

These inflows were justified in terms of the two-gap theory i.e. making good the deficiency of savings (an outcome of low incomes) and of foreign exchange (following from "export pessimism", caused by low level of industrialisation, low elasticity of both supply and demand of primary commodities). Moreover, it was maintained that capital inflows bring along with them 'advanced' high productivity technology, new products, which can complete the production circuit and help 'modernise' the economy. Thus, it was argued, increased income flows and advanced product-mix resulting from international capital flows can help initiate and sustain growth in the poor, low average income countries. Ever since the end of the Second World War, the processes of capital movement have been going on in various forms, moving finance from the early industrialised to the late industrialising economies though lately fears regarding reverse flow of resources have also been expressed.

It is difficult to provide an independent, separate, overall empirical assessment of the impact of the international capital flows, owing to the difficulty of separating out the effect of various variables and processes which have operated simultaneously. However, cumulatively debt liabilities of the poor economies have escalated to such proportions that often the debt-servicing amounts exceed the fresh new inflows. In this way, on a net basis, one comes across a certain measure of reverse flow of resources from the capital-deficient to the capital-surfeit economies. Then, the relative importance of ODA has declined *vis-á-vis* FDI and foreign portfolio investment. Short-run speculative capital movements have reached astronomical proportions destabilising economies. According to the World Development Report 2000-2001, total flows in 1999 came to 82892 million US dollars. Of this private account flows were the largest at 71446 million US $ while ODA was 6193 million US$ and the grants by the NGOs were 2232 million US$. These figures include the amounts going to Russia and other transition economies. It may be noted that FDI still moves overwhelmingly within the well-to-do countries, which highlights the role of profitability, demand (*vis-à-vis* needs) and mutual complementarily between the rich investing and recipient economies. The transnational companies, with their branches and affiliates, are the main agencies, with their global business interests and active participation in global financial and currency speculation, and as main players in global market for corporate control by means of mergers and acquisitions. A good part of FDI is by the principals in their branches and some profits are obtained improperly by means of transfer pricing. The product-mix, technology, energy-use magnitude and pattern, small islands of very high salaries and perks among the top executives of TNCs, tax-avoidance and evasion, bribing of politicians and bureaucrats, active promotion of consumerism, disregard of local-national cultures, attempts to have homogeneous consumption pattern in order to reap the economies of scale and scope, finance and currency market speculation, etc. are the features of FDI by the TNCs which have generally been regarded negatively from the point of the poor men and women of both the poor and the rich countries. Their impact on labour and employment, especially by means of shifting the location of their production facilities has not been viewed positively. Similarly, they have in various ways weakened national sovereignty of the poor countries and weaken the forces of inward-looking, people-centric policies. Most serious of all has been their impact in the form of increasing dependence. In any case, their experience highlights both the non-feasibility and non-desirability of catching-up modernisation. In countries like India, FDI and external finance are relatively unimportant as even after opening up and giving red carpet treatment to foreign capital, they have rarely exceeded 2 per cent of GDP, compared to the over all rate of investment of over 25 per cent generally.

6.9 ROLE OF THE STATE

The above illustrative, brief analysis of the role of capital accumulation and international capital movements hopes to have shown the limitations, perversities, non-feasibility and non-desirability of the spontaneous as well as conscious endeavours to develop by means of capital accumulation as the principal engine of growth (supported in numerous ways by the international economic relations under the hegemony of the early industrialised, ex-colonial powers). True, production must increase and for this purpose, generally capital accumulation is needed especially when other factors of production are available. But this is a means to numerous higher ends, and has to be the result of changes in "the socio-economic institutional structure" prevalent in the poor countries which thwart the development at micro and macro levels. By leaving unchanged and, in fact, strengthening the existing dysfunctional, distorted and anti-developmental structures, institutions and relationships and depending on capital formation as the prime, major instrument in such a framework, one would strengthen the anomies, alienation, oppression and denial of human and national potential. Development is basically a socio-economic exercise (in sum, development is best summed up as both national, community and individual empowerment). Its techno-economic aspects have to be subsumed as subsidiary ones commanded by the former by removing their unjust, oppressive features, even though a drastic restructuring may be an essential pre-condition. The popularity of resource transfer policy, with the UN organisations' never-fulfilled targets of 'assistance' from the rich to the poor countries, seems to be derived from its inherent capacity to serve the interests of the governing elite both in the so-called donor and recipient countries. For the former, these transfers create demand and market for their goods and services (exports), give them global hegemonic power over the course of 'development' of the poor countries. For the elite from the poor countries, apart from reducing the necessity to tighten the belt and generate savings, such inflows give them, access to technology, brand names and opportunities for luxurious levels of consumption and help create illusion of development. In any case, in an unequal society, any resource infusion without institutional-structural change gives disproportionate benefit to the people in the top rungs.

The PED critique of the conventional development economics goes beyond a critical examination of the policy variable of capital accumulation. It is true that until the "counter-revolution" in development economics in the first half of 1970s, there was little, difference of opinion concerning the key and leading catalytic, entrepreneurial role of the state in energising, directing and even directly conducting the processes of capital accumulation, industrialisation and economic growth, along with satisfying some societal welfare concerns. Within the broad parameters of active statist development policy there were, of course, differences of emphasis, nuances, choice of agencies, instruments and organisational forms, durability of statist interventions and their relationship with various domestic and external social and economic groups. The post-colonial urge for self-reliance and striving for relatively independent place in the comity of nations too had few exceptions. In societies where the state was among the relatively advanced and better organised institutions with its constituents exposed to the historical experience of the early industrialisers, the state directed and commanded the processes of accumulation and successfully created other alternative foci of power and capability, especially in countries with restrictive approach towards FDI. In any case, "aid" or concessional foreign assistance mainly at state to state level played a critical role in the growth acceleration experience until the first oil shock of early 1970s. In India, the public sector was given the leading role, especially direct entrepreneurial role for providing the basic economic and physical infrastructure and setting up heavy and basic capital and intermediate goods industries, pushing up the rate of savings and investment , regulating, guiding and supporting the growth of private industrial sector in designated areas and taking care of some of the imperatives of social welfare of , especially, the weaker sections.It really went a long way in discharging these historic tasks, though the process could not be sustained and the public sector or the state came under severe attack in the economic sphere.

6.10 THE COUNTER REVOLUTION IN DEVELOPMENT ECONOMICS: THE LPG PACKAGE

In this broad consensus on the state activism in development processes, not much attention was given in the early stages to the question of state character and state capacities as also the role, nature and tactical and strategic position of the powerful social groups who would be rivals to the development state. A class-neutral state representing broad, general social interests in a long-term perspective, capable of acting concertedly on the sticky constraints, taking into account present and future externalities and overcoming myopia was assumed to be an effective agency for carrying out the developmental tasks. Its task was assumed to command general social consensus, especially as a part of early nationalist euphoria in the early post- independence period. The role and attitude of India's business classes towards the public sector, initial support, but constant campaign to denigrate it and manipulate its actual operation in tune with its broad interest highlights the naivete of the early euphoric approaches to the role of the state. However, as experience accumulated, there emerged realisations regarding the real state character, capacities, its relationship with society, more particularly with the business classes and the organised working class and the impact of its internal organisational dynamics, leading in some cases to characterisations like soft-state, or the state as a part not of the solution but problem set, or, the need to develop and reform the state in order to use it effectively as a harbinger of development. The neglect of some of the crucial aspects of state interventions gave rise to disappointment and disenchantment, strong enough to drown the voice of the state protagonists. Many changes in the rich, powerful nations like the end of the golden era of capitalist expansion, stagflation, the burdens of cold war geopolitics, emerging competitive strengths of the exports of the newly industrialising countries and some snatching of space by relatively successful East Asian Tigers, along with the domestic political economy getting dominated by public spending and working class assertion owing to near full employment and cradle to grave social security tended to strengthen anti-statist -corporatist forces in the rich Western countries. There emerged strong streaks of discontentment and disenchantment in the weaker countries. Their growth was turning out to be costly and non-sustainable. Their main problems of poverty, unemployment, deprivation and inequalities were getting accentuated, despite and along with hitherto unprecedented growth rate, industrialisation and growth of the state sector. There appeared in many poor countries comparatively stronger business and industrial classes which flourished under statism both formally and by resorting to informal, underhand devices. In any case, there was growing concentration and centralisation of economic and political power. Popular forces did not benefit to any appreciable degree, especially in relative terms; they had limited participation, mainly passively, in the growth process and hence could not develop any deep links and commitment to the state-led industrialisation and growth of GDP as the prime target variable. The organised sector remained tiny and the large and growing informal sector was getting increasingly marginalised.

Prompted by and taking advantage of the emerging many faceted imbroglio, the 'counter-revolution' in development theory tried to undo whatever limited concern with society-wide, state-led, (public sector and public investment based) processes of growth which were witnessed so far. The phenomenal growth of the debt-burden, extreme external account vulnerability and the acute fiscal crisis of the state came handy to the powerful multilateral financial institutions increasingly adopting the agenda of global financial institutions and the TNCs to push ahead with a no-holds barred agenda of hegemonising the world economy, especially in the wake of the ideological euphoria created by the collapse of existing socialisms. It adopted an out and out market-based neo-liberal agenda, popularised as Washington Consensus, as the new 'development policy'. It was imposed on dozens of the debt-ridden, poor and weak economies simultaneously in the form of IMF-World Bank conditionalities for bailing them out of their foreign currency liquidity crises. In India, this programme of structural adjustment was adopted in the early 1990s in response to a similar crisis like situation. Its main elements were: a big retreat of the state from both directly participative and regulatory role in favour of unregulated, market-driven foreign and local capital, mainly the former. This policy also involved privatisation of the public enterprises which hitherto dominated many an economy. The opening up of the economies of the weaker countries according to the WTO rules (globalisation) and creation of facilitating conditions for the uncontrolled functioning of the market forces were the other elements of the neo-liberal 'development' agenda. This package was supposed to usher in an era of uninterrupted high growth which, in turn, was expected to reduce poverty by the trickle-down and pull-up processes. The entire decade of 1990s witnessed large-scale application of this model, but with increasingly frustrating, destabilising and anti-poor and anti-working class results. In effect, it became difficult to continue the growth momentum as the narrowly-focused growth and anti-employment bias of the liberalisaton policies led to unused capacities and weakening of the demand for investment and the fiscally-constrained state could not undertake revival by pump-priming. In response to such disastrous outcomes, there is a widespread disenchantment with liberalisation-privatisation-globalisation (LPG) package, which is the core of the counter- revolution in development economics. In opposition to it and as civil society institution's initiative many grassroot movements have made small beginning in their attempts to expose the pseudo development theories and their policy package and mobilise popular masses in defence of their interests, independence and democracy. In fact, owing to the strong links between the international debt-crisis and the Washington Consensus, it has been argued that the LPG policy package is basically a debt-collection device along with the maintenance of demand for international financial resource transfers. Surely, the alternative is not to go back to limping, half-hearted, ineffective statism, which owing to its GDP-centric paradigm and subservience to the powerful classes, groups, occupations tended, in effect, to strengthen the strong and weaken the weak. Instead of empowerment of the weak, further disempowerment was an outcome of the counter-revolution in development economics. The search is on for alternatives which are not paternalistic, top-down, iniquitous, eco-hostile and highly centralised, which do not replicate in the South countries, an anomies and alienation-ridden maldevelopment as seen in the North. This surely is a major task facing the political economy of development. As the growth momentum of the liberalisation period could not be continued and a prolonged deflationary or slow-down phase has set in which, along with negative trends in employment are threatening the livelihoods and security of the people in India, the search for alternatives remains a valid pursuit in India as well.

6.11 OUTLINE OF THE POLITICAL ECONOMY (PE) APPROACH

The foregoing clearly sets up the agenda to be addressed by the PE approach. Nations have come to be treated as units of analysis (e.g. as 'advanced' and 'backward' nations) in the development discourse as a result of continually growing international inequalities in the world. The historical world-scale processes of political conquest, ethnic cleansing, unilaterally beneficial economic domination by means of a variety of economic transactions in goods, factors and financial markets and cultural hegemony as seen markedly over the last five centuries or so have made very considerable contribution to these patterns of domination and disempowerment . But differentiation and stratification in regional, inter-state, inter-personal, inter-class, inter-occupational and many other dimensions within a nation are no less pronounced feature of the present era. A historical overview of the last five centuries is bound to show how the internal socio-economic situation and culture of the concerned countries contributed to the process of sharp international disparities and unequal access to and benefits from the processes of modern economic growth. This period can, following Braudel, be considered as the era of capitalist growth, whose diffusion, transmission, forcible imposition or conscious adoption remains incomplete, uneven, divisive and, on balance, one which created at great multi-dimensional costs hitherto unprecedented potential and opportunities which, however, remain elusive for an overwhelmingly large majority of the humanity on account of the hegemonic control acquired by a tiny minority both across and within nations. The PE approach views the challenge of development in this historical, holistic, long-term value-laden perspective. It follows that the PE development discourse and policy, which, by its very nature has a "unified and systematic methodology of its own" (S. Tsuru) and encompasses and integrates many disciplines, takes an approach to development which is simultaneously aggregative and disaggregative, macro as well as micro and meso and rises above narrow and artificial disciplinary boundaries. It does not necessarily prescribe from above a universally valid and relevant development path, but rather leaves it to be made by the development-deprived people themselves as they travel along the self-chosen and self-made path.

The task of the PED is not necessarily and merely ideological (certainly far from bound to any narrow, exclusivist ideology). It has to contend with practical, daily bread and butter issues as well as long-term compulsions and trends at many different levels. It must be recognised that despite its clear superiority on intellectual and practical planes, it does not cohere well with the interests of the powerful stakeholders of the prevalent order. Hence it remains much less popular and powerful than the narrow, truncated, theories of growth and development steeped essentially in the neo-classical economics. In fact, quite a few political economy approaches adopted the agenda of modern catching up industrialisation and, despite different values and institutional preferences, could not carve out separate, independent and widely acceptable niche for itself. The fiasco of the existing socialism in many parts of the world is a testimony to the incomplete, partial and imitative agenda adopted by some of the PE approaches. So much so that even in many strands of political economy approaches, the content and agenda of ' development' is borrowed practically wholesale from the experience of the early industrialised capitalist countries situated at the top of the unequal global system. At times, this is done in the name of the universality of the scientific and technological revolution. Thus instead of advocating alternative industrialisation or alternatives to industrialisation, and in so far as industrialisation and development were treated as synonyms, alternatives to development as well, certain schools of political economy plead for alternative institutional agencies (like the state, or cooperatives/collectives) and sequence, with a view mainly to swiftly and surely catch-up and surpass the pioneer industrialisers, of course in the process hoping to avoid some of the gross inequities which characterised the capitalist growth path. The objective of replicating the advancement of productive forces at a super high speed for telescoping the process was to be accompanied by a different set of social production relations, based essentially on a juridically or formally different kind of social or state ownership and centralised, planned public management. It involved homogeneity of outcomes in terms of life-style as reflected in the consumption pattern but without the massive, unjust and self-reinforcing inequities resulting in widespread deprivation and volatility. Thus the pattern of development, in some important aspects, especially in material-economic aspects bearing on consumption patterns, product-mix and some major aspects of life style following from physical- technical conditions of work, was technologically determined on the basis of mimetic pursuit of industrial advancement particularly the neglect of ecological sustainability involved in very high levels of energy and material intensity and spatial concentration of production.

As a result of the theoretical advances, lessons at the school of hard knocks and heightened democratic consciousness and commitments, pre-determined replication of known and experienced patterns of development, swiftly, with lower costs, under supposedly more democratic and accountable institutional dispensations has increasingly fewer advocates. Clearly, one-medicine-suits-all approaches apart from being impervious to different and changing circumstances and contexts, are top-down, paternalistic in content and design and are highly centralised and become in practice non-democratic. A political economy approach upholding the values of democratic empowerment of the people, respecting their freedom, dignity and harmonious social existence cannot stand for a development paradigm which yields involutionary results, fosters alienation and anomie and restricts peoples' free choice space, whether individually or through collective massively large communitarian institutions.

The PE of development cannot logically and rationally work in terms of a deterministically, pre-determined, universal concept/pattern of development. No one pattern of good, wholesome life, at individual, family or communitarian level, can be universally acceptable/desirable and can respect people's autonomy and freedom and needs, let alone provide for collectively and severally articulated changes in these concepts/patterns. The need, therefore, is not just to get rid of a universal, ethnocentric, involutionary agenda of material wellbeing on the lines imitating the experience of those who made an early start in what has come to be treated as modernisation and industrialisation and high level of economic growth/development modern economic growth a la Kuznets. The normative aspects which are essential ingredients of the PE paradigm of development and are based on values of equity, freedom, human dignity, harmony, happiness, etc. which permit full flowering of human personality and at the same time contribute to collective good. Essentially, the PE approach avoids binary modes of thinking and thus enlarges the open, plural choice space available individually and collectively, along with the provision of conditions in which the people are enabled to exercise their right of making choices. This is the agenda of equitable, collective empowerment with its normative baggage as its integral part.

It follows that the PE of development cannot proceed with its own agenda in the course of extending and enriching the development discourse without a prior exercise of demolition of the oddities and distortions which have found their way into it and, in fact, come to dominate both academic and policy level development discourse and practice. The positive component of the agenda thus provides useful opportunities and instruments redefining/ redesigning the presently popular development discourse in directions which can meet the challenges hitherto avoided or underplayed in the development discourse.

6.12 SUMMARY

Pointing to the global divide between the rich and the poor in both developed and developing countries and the fact that growth and income levels are not necessarily an indication of an increase in the standard of living, this unit discusses the political economy of development and some of the important political economy theories of development and its applicability especially with regard to India. Income cannot be made the only development factor which seems to be the result of monopolisation of development issues by economics especially as it evolved in the rich countries. The Income approach basically serves as the process of capital accumulation under the control of big corporates based in the rich countries. This unit shows that development as a normative holistic, social process and outcome is by definition and in its essential logic the concern of the political economy of development (PED) or development studies. PED requires that in addition to the state and the market, it should address the entire range of civil society institutions and should not focus exclusively on the state, market, or NGOs.

The unit also shows the limitations of capital accumulation and FDI inflows as a means of growth. The liberalisation-privatisation-globalisation (LPG) package suggested by the IMF and World Bank for bailing poor and weak economies out of their crises resulted in a big retreat of the state and disenchantment. A political economy approach cannot stand for a development paradigm which restricts peoples free choices and cannot have a predetermined universal pattern of development.

6.13 EXERCISES

1) Can estimates of income levels in countries be taken as a precise indicator of the level of development? Explain giving examples.

2) What is the agenda of the theories of the political economy of development (PED)? What are the important aspects of PED?

3) What are the limitations of capital accumulation and international capital flows in economic growth?

4) Write a brief note on the LPG package in development economics.

   Tables:

Table I : Population and National Income

	Population (Millions)	Grass National Income (Billion US $)
Low Income Countries	2417	1008.4
Middle Income Countries	2665	5285.5
High Income Countries	896	23701.7
World	5978	29994.6

Source: World Development Report-1999-2000.

Table II : Poverty Indicators

	Poor on $ 1 a day (Mill.)				Poor on $ 2 a day (Mill.)			
East Asia & Pacific	452	267	101	65	1089	885	472	323
Excluding China	92	54	20	9	285	252	187	115
Europe & central Asia	7	18	9	6	44	98	58	97
Latin America & Caribbean	79	61	58	43	167	159	162	133
Middle East & North Africa	6	6	6	5	59	85	80	58
South Asia	495	522	411	297	976	1095	1214	1078
Sub-saharan Africa	292	302	426	261	388	489	690	637
Total	1276	1175	1011	777	1718	2812	2675	2275

Table III : Alternative Approaches to Assessing Well-Being *

Approach to development objective	Greater weighting income of of QOL	Use of outcome indicator	Priority given to liberty	Philosophical Justification of approach	Justification for choice of indicators	Justification of weighting of indicators
GNP	No	No	Not explicit; but consumer choice is needed to justify indicator	Yes- utilitarianism	Yes, but not satisfactory	Yes, but not adequate
Employment	Indirectly	No	No	Weak	No	Only one indica- tor
Redistribution with growth	Yes	No	No Not explicit;	Yes- utilitarianism, plus giving	Yes, but not satisfactory	Attempted but not solved

			but consumer choice is needed to justify indicator	greater weight to poorest		
PQLI	Indirectly	Yes	No	Pragmatic/ Moralistic	Some	No
Basic Needs I (ILO)	Indirectly	No	No	Pragmatic/ Moralistic	No	No
Basic Needs II (Streeten etc.)	Indirectly	Yes	No	Pragmatic/ Moralistic	Some	Rough
Rawlsian	Yes	No	Yes	Yes	Overlapping Consensus	Overlapping Consensus
Capabilities (Sen)	Implicit	Yes	Yes	Yes	Indirectly- evaluation exercise	Indirectly- evaluation exercise
Capabilities (Nussbaum)	Implicit	Yes	Yes	Yes- Aristotelian	Overlapping Consensus	Overlapping Consensus

* It appears reasonable to treat what Stewart and Deneulin call wellbeing as equivalent to development in most of the popular and critical writing on development.