Global Capitalism, Deflation and Agrarian Crisis in Developing Countries

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Acronyms

BJP	Bharitya Janta Party
BWIs	Bretton Woods institutions
CIS	Commonwealth of Independent States
CSO	Central Statistical Organisation
EFF	extended financing facility
FCI	Food Corporation of India
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
IMF	International Monetary Fund
MP	member of Parliament
NSS	National Sample Survey
PDS	public distribution system
PSE	producer subsidy equivalent
SAPs	structural adjustment programmes
TNC	transnational corporation
WTO	World Trade Organization

Summary/Résumé/Resumen

Summary

The issue of land rights and that of gender equality are strongly affected by the prevalent economic and social policy regimes, at both national and global levels. The dominant policy regimes decide to what extent movements for securing land rights or gender equality encounter favourable conditions and have some hope of securing positive gains. This paper seeks to analyse the nature of the economic policy regimes associated with globalization, and to contextualize the issues of land rights and gender in the present era. It illustrates the main theoretical propositions with reference to the experience of India in the 1990s.

The paper is divided into five sections. The first deals with the deflationary impact of global finance capital on the large number of developing countries that have implemented loan-conditional structural adjustment and trade liberalization policies promoted by the Bretton Woods institutions (BWIs) during the last two decades.

After a discussion of how the industrialized countries managed to avoid indebtedness during their transitions from agrarian to industrial economies, section 2 outlines the broad contours of land reform in India. According to the author, a promising start in the 1950s was subverted over time by insufficient expansion of the internal market, a market that only a prospering peasantry could provide. Because most states in India have preserved land monopoly, productivity growth within agriculture has been constrained (those monopolizing land do not have an adequate incentive to invest, and those forced to lease land or to labour for hire do not have the means). Land monopoly also means that incomes hardly grow, and hence the market for consumption goods stagnates. Many believed, naively, that economic liberalization would solve growth problems. Yet more than a decade of structural adjustment, and trade and financial liberalization have led to a crisis of unprecedented dimensions, in which employment growth has collapsed and the purchasing power and food security of the poorer majority of the population have been severely eroded.

In section 3, the author discusses recent developments in the agrarian sphere, especially the crisis induced by the prolonged fall in primary product prices. She links the crisis directly to the contractionary fiscal policies of governments undertaking neoliberal reforms, and to trade liberalization in a context of worldwide recession. The author thinks that this agrarian crisis is likely to persist as long as the present policies of openness to the world market continue, because the global conditions of trade in primary commodities are likely to remain unfavourable.

After a brief upsurge in the early 1990s, the prices of primary products mainly exported by developing countries have fallen, as have the prices of cereals exported by industrialized countries. Since the decline began in 1996, grain prices have remained depressed at levels about half those prevailing earlier in the decade. As a consequence, with the removal of quantitative restrictions and freer global trade, not only are those developing country farmers engaged in

growing exported cash crops suffering, but the livelihoods of millions of foodgrain producers are also being undermined as a result of imports of exceptionally low-priced foreign grain. The depression in global markets is thereby being imported into the domestic economies of liberalizing countries.

In section 4, the author illustrates these arguments with the Indian experience, especially with reference to food security and employment. She deals with the impact of liberalization and adjustment on rural livelihoods, land use and food security. Observers of long-term trends in India see a sharp contrast between the pre-reform 1980s and the 1990s, which started with income-deflating economic reforms. During the Seventh Plan period (1985–1990), public expenditures on rural development and employment generation rose to 13.2 per cent of the gross domestic product (GDP), almost double the previous level. The positive effects of these trends on food security and poverty reduction came to an end in 1991. In July 1991, on the advice of the BWIs, the central government slashed development expenditures to contain the budget deficit and made it more difficult for state governments to borrow. By 1993, rural development expenditures had fallen to 7.8 per cent of GDP, and they had fallen to 5.9 per cent by 2001. By 1992, at the all-India level, poverty had risen sharply, and the crude death and infant mortality rates rose in a number of states. The rate of agricultural growth also slowed markedly under these reform policies. At the same time, there was a significant shift in land use and cropping patterns toward export crops at the expense of foodgrains consumed by the local population. The author uses the example of cotton cultivation to illustrate the problem with unregulated primary export thrust.

The fifth section explores possible strategies for protecting rural livelihoods. It focuses particularly on the West Bengal experience with respect to tenancy reform and addressing gender inequality in land control.

In conclusion, Patnaik says, unregulated capitalist exploitation of bio-resources by big landlords, rich farmers and town contractors has produced a crisis for the majority of India's rural inhabitants by way of deforestation, lack of firewood, falling sub-soil water tables and acute scarcity of drinkable water. Such factors, combined with falling non-farm work (as governments wind up employment-generating programmes), income-deflating policies and export thrust, have had devastating effects on the livelihoods of the poor.

Yet in many Indian villages, the people affected by such crises are adopting much the same model of co-operative effort which over 40 years ago allowed poverty-stricken rural populations in China to improve their situation. There are a number of successful joint community efforts to invest and diversify activities within a voluntary co-operative framework. These are helping to preserve livelihoods and generate enough income and flexibility for hitherto poor households, so they can remain in villages rather than migrate seasonally to cities, and can send their children to school rather than to work.

This, the author believes, is also the way forward in other developing countries. It is not easy in places where local government institutions have not been democratized and where state support is lacking; it often encounters resistance because better incomes and empowerment of the disadvantaged may be seen as a real threat to their domination by local landed employers. Where there is at least a minimal level of state support and activism against deflationary globalization, however, it can be generalized to a relatively successful stabilization of livelihoods.

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Résumé

Les droits fonciers et l'égalité entre les sexes sont durement affectés par les politiques économiques et sociales qui ont cours aux niveaux national et mondial. La mesure dans laquelle les mouvements tendant à assurer les droits fonciers ou l'égalité entre les sexes rencontrent des conditions favorables et peuvent espérer gagner du terrain dépend des politiques dominantes. L'auteur cherche ici à analyser la nature des politiques économiques associées à la mondialisation et à contextualiser les questions de droits fonciers et de genre à l'époque actuelle. L'exemple de l'Inde des années 1990 lui sert à illustrer ses principales propositions théoriques.

L'étude se compose de cinq parties. La première traite des répercussions déflationnistes de la gestion des finances mondiales sur les nombreux pays en développement qui ont procédé aux ajustements structurels auxquels étaient subordonnés les prêts et qui ont appliqué les politiques de libéralisation du commerce prônées par les institutions de Bretton Woods depuis 20 ans.

Après avoir étudié comment les pays industrialisés s'y étaient pris pour éviter de s'endetter lors du passage d'une économie agraire à une économie industrielle, l'auteur expose, dans la deuxième partie, les grandes lignes de la réforme agraire en Inde. Cette réforme, qui avait eu des débuts prometteurs dans les années 1950, s'est ensuite enlisée, selon l'auteur, faute de marché intérieur suffisamment large, marché que seule une paysannerie prospère pouvait assurer. Comme la plupart des Etats indiens ont maintenu le monopole foncier, la productivité agricole a peu progressé (ceux qui monopolisent la terre n'étant pas suffisamment incités à investir et ceux qui sont contraints de la louer ou de louer leur force de travail n'ayant pas les moyens nécessaires). Le monopole foncier a également pour conséquence une croissance pratiquement nulle des revenus, laquelle entraîne à son tour la stagnation du marché des biens de consommation. Beaucoup croyaient naïvement que la libéralisation économique allait résoudre les problèmes de croissance. Pourtant, plus de dix ans d'ajustement structurel, alliés à la libéralisation commerciale et financière, ont abouti à une crise sans précédent, marquée par un effondrement de la croissance de l'emploi et une grave érosion du pouvoir d'achat et de la sécurité alimentaire de la majorité pauvre de la population.

Dans la troisième partie, l'auteur traite des événements récents survenus dans le domaine agricole, en particulier de la crise provoquée par la chute continuelle des cours des produits de base. Elle rattache directement la crise aux politiques budgétaires contradictoires des gouvernements qui ont entrepris des réformes néolibérales, et à la libéralisation du commerce dans un contexte de récession mondiale. Selon elle, cette crise agraire pourrait durer aussi longtemps que se poursuivra la présente politique d'ouverture au marché, parce que les conditions mondiales du commerce des produits de base risquent fort de rester défavorables.

Après une brève hausse au début des années 1990, les cours des produits de base principalement exportés par les pays en développement ont chuté, de même que ceux des céréales exportées par les pays industrialisés. Depuis que cette baisse s'est amorcée en 1996, les prix des céréales sont restés à un niveau équivalant à peu près à la moitié de ce qu'ils étaient au début de la décennie. Avec la suppression des restrictions quantitatives et la libéralisation des échanges mondiaux, non seulement les agriculteurs des pays en développement qui ont fait une plus large part aux cultures d'exportation souffrent mais des millions de céréaliers voient leurs moyens d'existence s'effriter peu à peu du fait de l'importation de céréales étrangères à très bas prix. La dépression qui règne sur les marchés mondiaux gagne ainsi les économies nationales des pays qui libéralisent.

Dans la quatrième partie, l'auteur illustre ces arguments par des exemples tirés de l'expérience faite en Inde, surtout dans les domaines de la sécurité alimentaire et de l'emploi. Elle traite des effets de la libéralisation et de l'ajustement sur les moyens d'existence des populations rurales, l'occupation des sols et la sécurité alimentaire. Ceux qui ont pu observer l'évolution de l'Inde à long terme voient un net contraste entre les années 1980, antérieures aux réformes, et les années 1990, qui ont commencé par des réformes économiques qui ont déprimé les revenus. Pendant le Septième Plan (1985-1990), les dépenses publiques consacrées au développement rural et à la création d'emplois ont presque doublé, passant à 13,2 pour cent du produit intérieur brut (PIB). Les effets positifs de cette évolution sur la sécurité alimentaire et la réduction de la pauvreté ont cessé en 1991. En juillet 1991, sur le conseil des institutions de Bretton Woods, le gouvernement central a fortement réduit les dépenses de développement pour contenir le déficit budgétaire et rendu moins accessible l'emprunt pour les gouvernements des Etats. En 1993, les dépenses du développement rural ne représentaient plus que 7,8 pour cent du PIB et ont été ramenées à 5,9 pour cent en 2001. En 1992, la pauvreté avait sensiblement progressé dans toute l'Inde et les taux bruts de mortalité et de mortalité infantile avaient augmenté dans plusieurs Etats. Le taux de croissance agricole a également enregistré un net ralentissement avec ces politiques de réforme. En même temps, des changements importants se sont produits dans l'occupation des sols et les modes de culture car les cultures d'exportation se sont développées aux dépens des céréales consommées par la population locale. L'auteur prend l'exemple de la culture du coton pour illustrer le problème posé par une expansion incontrôlée des cultures de produits de base destinés à l'exportation.

Dans la cinquième partie, l'auteur examine les stratégies auxquelles on peut recourir pour protéger les moyens d'existence des populations rurales. Cette partie est plus spécialement consacrée à l'expérience qu'a faite le Bengale occidental en réformant le régime de fermage et en essayant de corriger l'inégalité entre hommes et femmes devant la terre.

Utsa Patnaik conclut que l'exploitation capitaliste débridée des ressources biologiques par de grands propriétaires fonciers, de riches agriculteurs et des entrepreneurs des villes a plongé dans la crise la majorité des ruraux en Inde à cause du déboisement, du manque de bois de chauffage, de la baisse des nappes phréatiques et de la pénurie aigue d'eau potable. Ces facteurs, alliés à une diminution des emplois non agricoles (les gouvernements mettant fin à leurs programmes de création d'emplois), à des politiques qui font baisser les revenus et aux efforts d'exportation, ont eu des effets désastreux sur les moyens d'existence des pauvres.

Pourtant, dans bien des villages indiens, les populations touchées par cette crise recourent aux mêmes méthodes de coopération que celles qui ont permis, il y a 40 ans, aux populations rurales de Chine qui vivaient dans la misère d'améliorer leur situation. Un certain nombre d'efforts communautaires tendant à investir et à diversifier les activités dans le cadre de coopératives spontanées sont couronnés de succès. Ils contribuent à la préservation des moyens d'existence, augmentent la flexibilité et rapportent assez de revenu aux ménages pauvres pour leur permettre de rester dans leurs villages au lieu d'émigrer à certaines saisons vers les villes et d'envoyer leurs enfants à l'école au lieu de les faire travailler.

L'auteur estime que c'est la voie à suivre pour d'autres pays en développement également. Ce n'est pas une voie facile là où les pouvoirs publics locaux ne se sont pas démocratisés et où manque le soutien de l'Etat. De telles initiatives se heurtent souvent à la résistance des employeurs locaux propriétaires de terres, qui peuvent voir dans l'amélioration des revenus et l'autonomisation des déshérités une menace réelle pour leur domination. Cependant, là où il y a au moins un soutien minimum de l'Etat et des activités militant contre une mondialisation déflationniste, elles peuvent se généraliser et parvenir assez bien à stabiliser les moyens d'existence.

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Resumen

Las cuestiones de los derechos territoriales y de igualdad de género se ven sumamente afectadas por las políticas sociales y económicas comunes, tanto a nivel nacional como mundial. Los regímenes políticos dominantes determinan el grado en que los movimientos para asegurar los derechos territoriales o la igualdad de género, encuentran condiciones favorables y abrigan la esperanza de conseguir mejoras. Este documento pretende analizar la naturaleza de las políticas económicas asociadas con la mundialización, y contextualizar las cuestiones de los derechos territoriales y de género en la época actual. Ilustra las principales propuestas teóricas en relación con la experiencia de la India en el decenio de 1990.

El documento se divide en cinco secciones. En la primera se abordan los efectos deflacionistas del capital financiero mundial en un gran número de países en desarrollo que han llevado a cabo un ajuste estructural supeditado a los préstamos y han aplicado políticas de liberalización del comercio promovidas por las instituciones de Bretton Woods en los últimos dos decenios.

Tras discutir el modo en que los países industrializados consiguieron evitar el endeudamiento durante su transición de economías agrarias a economías industriales, la sección 2 describe a grandes rasgos la reforma agraria de la India. Según la autora, el comienzo esperanzador del decenio de 1950 fue socavado con el tiempo debido a la expansión insuficiente del mercado interno, que sólo podía abastecer un campesinado próspero. Dado que la mayoría de los estados en la India han preservado el monopolio de las tierras, el crecimiento de la productividad agrícola ha estado limitado (los que monopolizan las tierras no están debidamente motivados para invertir, y los que están obligados a arrendar las tierras o a luchar por un arriendo carecen de los medios suficientes). El monopolio de las tierras también significa que los ingresos apenas crecen, por lo que se estanca el mercado de bienes de consumo. Muchos creían, ingenuamente, que la liberalización económica solucionaría los problemas del desarrollo. Sin embargo, más de diez años de ajuste estructural, y de liberalización financiera y del comercio, han conducido a una crisis sin precedentes, donde el crecimiento del empleo se desplomó y el poder adquisitivo y la seguridad alimentaria de la mayoría más pobre de la población resultaron seriamente afectados.

En la sección 3, la autora hace referencia a los cambios producidos recientemente en el sector agrario, en particular la crisis que ha provocado la caída prolongada de los precios de los productos básicos. Vincula la crisis directamente con las políticas fiscales de contracción de los gobiernos que emprendieron reformas neoliberales, y con la liberalización del comercio en un marco de recesión mundial. A juicio de la autora, es probable que esta crisis agraria persista mientras continúen las políticas actuales de apertura al mercado mundial, debido a que las condiciones generales del comercio de los productos básicos probablemente sigan siendo desfavorables.

Tras un breve aumento a principios del decenio de 1990, los precios de los productos básicos principalmente exportados por los países en desarrollo han bajado, al igual que los precios de los cereales exportados por los países industrializados. Desde el inicio de este descenso en 1996, la caída de los precios de los cereales se ha mantenido en niveles que apenas ascienden a la mitad de los registrados a principios del decenio. Por consiguiente, al eliminarse las restricciones cuantitativas y liberalizarse el comercio mundial, no sólo se ven perjudicados los agricultores de los países en desarrollo dedicados a los cultivos comerciales exportados, sino que también se ve afectada seriamente la subsistencia de millones de productores de cereales, a consecuencia de las importaciones de cereales extranjeros a precios excepcionalmente bajos. De este modo, la crisis de los mercados mundiales está afectando a las economías nacionales de los países cuyos mercados están liberalizándose.

En la sección 4, la autora ilustra estos argumentos basándose en la experiencia de la India, particularmente en relación con la seguridad alimentaria y el empleo. Hace referencia al impacto de la liberalización y del ajuste estructural en los medios de vida rurales, la utilización de las tierras y la seguridad alimentaria. Si se analizan las tendencias a largo plazo en la India, se observa un marcado contraste entre el decenio de 1980 anterior a la reforma y el decenio de 1990, que comenzó con reformas económicas que redujeron los ingresos. Durante el período del Séptimo Plan (1985–1990), el gasto público en desarrollo rural y generación de empleo aumentó al 13.2 por ciento en términos del producto bruto interno (PBI), duplicando prácticamente el nivel anterior. Los efectos positivos de estas tendencias en la seguridad alimentaria y la reducción de la pobreza acabaron a finales de 1991. En julio de ese año, siguiendo el asesoramiento de las instituciones de Bretton Woods, el gobierno central recortó drásticamente los gastos para contener el déficit presupuestario y dificultó más a los gobiernos estatales la obtención de préstamos. En 1993, los gastos en desarrollo rural se habían reducido al 7.8 por ciento en términos del PBI, y en 2001 habían disminuido al 5.9 por ciento. En 1992, el nivel de pobreza en toda la India había aumentado radicalmente, y la tasa bruta de mortalidad en general y de mortalidad infantil se había incrementado en algunos estados. La tasa de crecimiento de la producción agrícola también se había reducido en gran medida a consecuencia de estas políticas reformistas. Al mismo tiempo, se había producido un cambio en la explotación de las tierras y en los sistemas de cultivo, al orientarse más hacia los cultivos de exportación en perjuicio de los cereales consumidos por la población local. La autora cita como ejemplo el cultivo del algodón para ilustrar el problema que supuso el fomento de la exportación no reglamentada de productos básicos.

La sección 5 explora algunas posibles estrategias para proteger los medios de vida rurales. Se centra particularmente en la experiencia de Bengala Occidental respecto a la reforma de tenencia de la tierra y a la lucha contra la desigualdad de género en el control de las tierras.

Como conclusión, Patnaik afirma que la explotación capitalista no reglamentada de los recursos biológicos por parte de los grandes terratenientes, de los agricultores ricos y de los contratistas urbanos ha provocado una crisis para la mayoría de los habitantes de las zonas rurales de la India, a través de la deforestación, la falta de leña, la disminución de los niveles de agua en los mantos freáticos y la alarmante escasez de agua potable. Estos factores, combinados con la disminución del trabajo no agrícola (al poner fin los gobiernos a los programas generadores de empleo), las políticas de reducción de ingresos y el fomento de las exportaciones, han tenido efectos devastadores para la subsistencia de la población pobre.

Sin embargo, en muchas aldeas de la India, las personas afectadas por estas crisis están adoptando el mismo modelo de esfuerzo cooperativo que hace más de 40 años permitió mejorar la situación de las poblaciones de China azotadas por la pobreza. Hay esfuerzos comunitarios conjuntos exitosos para invertir y diversificar actividades dentro de un marco cooperativo voluntario. Estas iniciativas están ayudando a preservar los medios de vida y a generar suficientes ingresos y flexibilidad para los hogares que hasta ahora vivían en la pobreza, por lo que pueden permanecer en sus aldeas en lugar de emigrar temporalmente a las ciudades, y enviar a sus hijos a la escuela en lugar de al trabajo.

La autora cree que éste también es el camino a seguir en otros países en desarrollo. Esto no es fácil en los lugares donde las instituciones gubernamentales locales no se han democratizado y donde el apoyo estatal es inexistente; a menudo se encuentra resistencia porque los empleadores locales pueden considerar que el aumento de los ingresos de los pobres y su empoderamiento representan una amenaza real para su dominio. Sin embargo, en los lugares donde existe al menos un mínimo de apoyo estatal y de activismo contra la mundialización deflacionista, esto puede ser generalizado para lograr una estabilización de los medios de vida relativamente satisfactoria.

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Introduction

The issue of land rights and that of gender equality are strongly affected by the prevalent economic and social policy regimes, at both national and global levels. The dominant policy regimes decide to what extent movements for securing land rights or gender equality encounter favourable conditions and have some hope of securing positive gains. This paper seeks to analyse the nature of the economic policy regimes associated with globalization, and to contextualize the issues of land rights and gender in the present era. It will illustrate the main arguments with reference to the experience of India in the 1990s.

The paper is divided into five sections. The first deals with the deflationary impact of global finance capital on the large number of developing countries that have undergone loan-conditional structural adjustment and trade liberalization under the guidance of the Bretton Woods institutions (BWIs) during the last two decades. In section 2, these developments, which have been driven by neoliberal ideas, are theoretically situated in the historical experience of deflationism in the period between the two World Wars. Section 3 discusses the recent developments in the agrarian sphere, especially the crisis induced by the prolonged fall in primary product prices. The fourth section illustrates the arguments on the basis of the Indian experience, especially with reference to food security and employment. The fifth section explores possible strategies for protecting rural livelihoods.

1. The Income-Deflating Results of the Global Dominance of Finance Capital

A great deal has been written regarding the emergence and dominance of highly mobile and fluid global finance capital in the wake of the oil-shocks of the 1970s and the subsequent, largely successful attempts of this finance capital in moulding economic policy agendas worldwide toward its own interests.[1] This paper deals with the economic agenda of globally dominant finance capital, insofar as it impacts on and affects the livelihoods of millions of people, mainly in the rural areas of developing countries, who make up the poor of the world. The implementation of this agenda has a profound effect both on land rights and gender equity in developing countries.

The interests of capitalists who deal in money to make profit have always been substantially different from the interests of capitalists who are engaged in material production for profit on the basis of borrowed money. Financiers are creditors, and creditors above all wish to prevent inflation, which erodes their returns: they wish to maintain high real interest rates and want complete freedom to move their finances in and out of countries in search of the highest returns, which are mainly speculative in nature. Instead of accumulation through productive investment, the preferred route for finance capital is through the rapid centralization of capital via take-overs and acquisition of cheapened foreign assets. This is achieved through periodic

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[1] See *Monthly Review* (1999); and Baker et al. (1998).

asset deflation with income deflation in those developing countries that have opened themselves fully to the destabilizing effects of these flows.

Deflationary economic policies combined with removal of all national barriers to the free movement of finance capital thus forms the core of the policy agenda of finance capital. The dominance of finance capital over all other types of capital, and the systematic implementation of its deflationary agenda in over 80 countries through conditions attached to external debt from the international lending agencies, has brought about the present global crisis of livelihoods. This crisis is of a scale and magnitude that is unprecedented in the post-Second World War era and has not been seen since the run-up to the Great Depression over 70 years ago.

In many ways the causes are similar, for the 1920s were also a period when finance capital dominated, and finance ministers of all the capitalist countries rigidly adhered to the dogma of balanced budgets and deflationary solutions to solve balance-of-payments problems. This approach was regarded as "sound finance" at that time. As agricultural prices fell during the mid-1920s, all big exporters of primary products, which included countries like Germany and the United States, found their trade balances moving toward or into the red, and suffered a fall in customs and other revenues. Empire and dominion countries similarly affected were advised by the British treasury to immediately cut public expenditures and balance budgets, which they did. Incomes were reduced by a multiple of the initial cuts in public expenditure, and the demand for internal goods as well as the capacity to import in each country fell, affecting the incomes of trading partners, feeding back in turn into a further fall in output and trade (Kindleberger 1987).

All John Maynard Keynes's warnings, based on his revolutionary theory of income determination (which rightly held that governments should be spending more, not cutting effective demand by reducing expenditure), fell initially on unheeding ears. What started as an agricultural recession deepened into a downward spiral of output and trade, into the Great Depression, largely because of the incorrect policies of reducing effective demand. Something very similar is happening at present under the rigid implementation of the neoliberal dogma of reducing fiscal deficits through cuts in public spending, even in the face of mounting unemployment.[2] (The term dogma is used advisedly, for as argued in the next section, there is no acceptable theoretical basis to these prescriptions: they reflect the narrow self-interest of a politically dominant minority.) The difference from the 1920s is that these policies have been in operation now for two decades and the current agrarian crisis is the end result, not the beginning of the consequent global slowdown. The theoretical similarity of deflationism during the period between the two World Wars and current neoliberal economic prescriptions is discussed in more detail in section 2.

As table 1 shows, in the era of globalization (the last two decades of the twentieth century), there was a halving of the world's gross domestic product (GDP) growth from 4.1 per cent in

[2] Halevy and Fontaine (1998) contains a number of papers on the way economies have become demand-constrained systems in the present era. Also see Patnaik (1999a).

the 1970s to 2.1 per cent in the 1990s. While growth in the advanced economies slowed from 3.5 to 1.9 per cent, the slowdown was relatively sharper in all developing economies, from 5.3 to 2.9 per cent. If China, which was not subordinated to global deflationary neoliberal policies, is excluded, the growth in developing economies was even lower than indicated by these figures. Given their much lower initial income base, the impact of the deceleration on the per capita income growth of developing country populations is more severe.

As argued later in this paper, countries trying to develop are bound to get into balance-of-payments problems and incur external debt, because the conditions under which the attempt is made are relatively unfavourable compared to the historical experience of today's developed countries. Debt has been used by the BWIs to impose the neoliberal economic agenda of finance capital. The way in which these institutions have evolved to a consensus on economic policies that best serve the interests of finance capital has also been extensively discussed (Pieper and Taylor 1998).

More than 80 countries were implementing loan-conditional deflation and trade liberalization in the 1980s. Table 2 summarizes a study by the International Monetary Fund (IMF) of the policy instruments used in 78 countries that were implementing Fund-guided structural adjustment in the 1980s. It is clear that the policies add up to consistent macroeconomic contraction, and that a large number of countries were implementing at least four contractionary policies at the same time.

Most of the 46 countries in sub-Saharan Africa were under structural adjustment programmes from the late 1970s or early 1980s, which entailed negative investment growth. World Bank data covering 1980 to 1989 show that out of 33 adjusting countries, nine countries accounting for 40.4 per cent of the region's population, had an annual per capita real GDP decline of over 2 per cent. Another 12 countries, accounting for 40.8 per cent of the total population, registered a decline ranging from 0 to 2 per cent. The per capita real GDP of the entire region fell over the decade of the 1980s at an average rate of 1.1 per cent annually. There was a substantial drop in basic food output and availability per head, despite food aid. The six most populous countries of the region, all under structural adjustment, experienced a 33 per cent fall in cereals output and a 20 per cent fall in food staples output per head in the 1980s, while at the same time cash crops in volume terms were being exported at an annual rate of 6.5 per cent (Kenya) to 13.9 per cent (Sudan), despite falling unit dollar prices,[3] while the competitive export thrust ensured a 35 to 50 per cent fall in unit dollar price for primary exports, so that no increase in exchange earnings took place at all for countries expanding exports at 6 to 8 per cent or less every year. World Bank documents on Africa urge these countries to redouble their efforts to export—in effect, to be on a backward-bending supply curve—selling more and more at falling prices, which means that they will continue to be global distress-sellers. All except one country suffered declines in average calorie intake even after food imports were taken into account (table 3). Falling nutrition has been unequally distributed within affected households, with

[3] See U. Patnaik (1996) for the tables, based on data from UNDP (1992).

women suffering the largest nutrition decline. The devastation of the HIV epidemic might not have been as great without the accompanying falling nutrition levels during this period.

Over the 1990s the number of people in absolute poverty (living on less than one dollar a day) in Africa is estimated to have risen from 300 to 380 million. Food security was adversely affected in the entire region: annual per head absorption of the food staples (including tubers and plantains) fell from 156 kilograms in 1980 to only 137 kilograms by the early 1990s.[4] The richest African country, South Africa, now subscribes to neoliberal deflationism and is cutting the already low budget deficits despite a 35 per cent unemployment rate among the black majority.

Many countries in Latin America under BWI-guided structural adjustment also saw substantial real income decline in the 1980s. Summarizing a number of IMF studies, van der Hoeven finds that, taking all countries which implemented adjustment and liberalized between 1980 and 1990, the per capita GDP declined by 9 per cent, the minimum wage fell by 31.7 per cent and the agricultural wage fell by 26.5 per cent. The absolute numbers of people in poverty taking all Latin American countries rose from 91.4 million to 132.7 million over the decade.

In the course of the 1990s, mass income deflation became generalized to ever larger areas of the globe, while in already income-deflating areas like sub-Saharan Africa, per capita income continued to fall by 6 per cent between 1990 and 1999, raising the numbers in absolute poverty by 80 million. In the first half of the 1990s, the Soviet Union's break-up and "shock therapy" to usher in market reforms under the advice of Western "experts" saw a catastrophic absolute collapse of GDP in Russia and Ukraine by 1996 to half the 1990 level, and a large rise in the male death rate. All other constituents of the Commonwealth of Independent States (CIS) also saw similar orders of decline in GDP, except Georgia where GDP declined by as much as 82 per cent, and Uzbekistan, which was the best-off with a decline of "only" 17 per cent (table 4). This region had been a large importer of temperate foodgrains from Northern countries as well as of tropical products—and both were severely affected. This was followed by the 1997 crisis of the former Asian "tigers", a few years after they had fully opened their economies to speculative financial flows. These economies experienced both asset deflation and income deflation over the next three years. The collapse of those Asian tigers that were closely integrated with other economies through trade linkages has affected export incomes elsewhere, notably in Brazil; while Argentina is in acute crisis at present with loans drying up and widespread social unrest against the implementation of harsh deflationary measures by successive governments to satisfy international creditors.

Since 1991, India too has been implementing mass income deflationary policies, though much less intensively than many other countries, because of domestic opposition from the very beginning; nevertheless, owing to their low initial incomes, the impact of these policies on the

[4] Van der Hoeven (1994), summarizing findings of IMF Reports; see also United Nations (2001) for poverty estimates in the 1990s. For per head food output, calculated from UNDP data, see U. Patnaik (1996) (food includes cereals, tubers and plantains); and for per capita calorie decline, see P. Patnaik (1999b).

poorer majority of the Indian population has been severe, the most important aspects being a collapse of rural employment and a massive fall in per head food grains availability. These outcomes are discussed in greater detail in the third section.

The only large area of sovereign economic policy in the developing world is China, where "reforms"—whatever their independent merits or demerits might be—have been internally determined, and not the outcome of the debt-conditional internalization of a finance-capital-driven global neoliberal agenda. As a result, they have not been mass-demand-deflating in character but rather have, until recently, been associated with high growth rates.

In India too, growth has slowed down, food security has been undermined and human development indicators have been affected adversely since 1991, when India started neoliberal reforms after taking an extended financing facility (EFF) loan of a mere $4.8 billion. Of course, the loan was simply an entry-point—taking advantage of the temporary problems created by the Gulf War—for rapidly ushering in a complete reversal of the Nehruvian policy regime of state-directed or *dirigiste* development prevalent up to that time. It amounted to a virtual economic *coup d'etat*, since no prior discussion in Parliament was permitted.

We believe that it is a grave mistake to think that adjustment can ever have a "human face". On the contrary, since the basic agenda is reduction in mass incomes along with a large rise in income inequality, neoliberal reforms always imply a worsening of welfare for the most vulnerable, and have driven viable producers into the quagmire of unemployment, indebtedness and asset loss. It is not correct to say that IMF and World Bank policies "have failed", as many writers have put it, after looking at all the evidence which shows a rise in poverty and de-industrialization. On the contrary, we contend the BWIs have *succeeded* to a remarkable extent in what they were actually trying to do, namely deflate mass incomes and open up developing economies in the interests of global finance capital. They continue to implement the same agenda today.

Table 1: Growth of output, population and per head output in advanced and developing economies (annual percentage rates during specified decades)

	1970s	1980s	1990s
Advanced economies			
Overall GDP	*3.5*	*3.1*	*1.9*
Agriculture	3.7	1.9	0.0
Industry	3.4	0.9	2.3
Services	3.6	4.5	1.8
Per capita GDP	2.72	2.4	1.5
Population	0.8	0.7	0.5
Developing economies			
Overall GDP	*5.3*	*3.1*	*2.9*
Agriculture	2.8	3.4	1.5
Industry	5.6	2.9	3.4
Services	6.0	3.1	3.1
Per capita GDP	3.0	1.0	1.2
Population	2.3	2.1	1.7
World			
Overall GDP	*4.0*	*3.1*	*2.1*
Agriculture	3.1	2.9	1.1
Industry	4.1	1.5	2.5
Services	4.0	4.2	2.0
Per capita GDP	2.1	1.4	0.6
Population	1.9	1.7	1.5

Source: Rao and Storm 2003, from tables 1a, 1b, 1c.

Table 2: Policies implemented in 78 countries in the 1980s under IMF-guided reforms

Type of policy	Percentage of total number of countries implementing policy
Restraint on central government expenditure	91
Limits on credit expansion	99
Reduction in budget deficit/GDP ratio	83
Wage restraint	65
Exchange rate policy (devaluation)	54

Source: Constructed from data in Cornia (1987:11).

Table 3: Change in nutrition level in the six most populous countries in sub-Saharan Africa

Country	Cereal imports (1,000 tonnes)		Food aid (cereals) (1,000 tonnes)		Change in imports* (1,000 tonnes)	Per cent change in calories per head
	1. 1980	2. 1990	3. 1979–1980	4. 1989–1990	5. 1980–1990	6. 1979–1981 to 1989–1991
Tanzania	399	73	89	22	–259	–2.17
Ethiopia	397	687	111	538	–137	–9.92
Uganda	52	7	17	35	–63	–6.00
Nigeria	1,828	502	—	—	–1,326	15.45
Kenya	387	188	86	62	–175	–9.86
Zaire	538	336	77	107	–232	1.54

Source: P. Patnaik (1999b:174) for first four columns. For last column, see FAO (1996). Note that calorie intake refers to total calories from all food.

* Imports are net of food aid. Units are 1,000 tonnes.

Note: Column 5= (2–4) – (1–3). Import figures refer to calendar years while food aid figures refer to crop years (July–June) so that their comparison gives an approximate picture only. Since aid data are from foreign donors, July–June is compared with the following January–December to take care of lags in aid arrival.

Table 4: Drop in real GDP and male life expectancy in the CIS countries, 1985–1995

Country	Real GDP in 1995, percentage below real GDP level in 1985	Change in male life expectancy, no. of years
Armenia	–62	–1.1
Belarus	–39	–2.9
Georgia	–82	—
Kazakhstan	–55	—
Kyrgyzstan	–50	–3.2
Russian Federation	–45	–5.9
Tajikstan	–60	–1.0
Turkmenistan	–40	–0.2
Ukraine	–54	–2.4
Uzbekistan	–17	0.0

Source: UNDP 1998, 2000.

Table 5: Annual growth rates of foodgrains production in India, (index-based) base triennium ending 1981–1982 = 100

Period	Wheat	Rice	Coarse grains	Total cereals	Pulses	Foodgrains
1979–1980 to 1989–1990	4.24	4.29	0.74	3.63	2.78	3.54
1989–1990 to 1998–1999	3.62	1.60	-0.48	1.88	1.19	1.80

Source: *Economic Survey 1999–2000* (Govt. of India), rearranged from table 8.6. Exponential functions using least squares have been used to obtain the compound growth rates.

2. Recalling Some Lessons of History

Why developing countries have balance-of-payments problems

Is the pervasive external indebtedness in developing countries, which has brought them under the effective control of the Bretton Woods institutions, the result of their own policy mistakes and something they could have avoided? Why did today's advanced countries not face the same problems in their own period of transition from mainly agrarian to developed industrial economies? Does their history hold lessons for the current problems faced by developing countries? These are some of the questions that arise. While the range of these questions is far too wide to be addressed adequately here, some iconoclastic observations are presented below.

One of the most important requirements of the transition from an agrarian to a developed economy is the transformation of agrarian relations. This requires doing away with rentier landlordism and creating the conditions for a rise in productivity such that the *raw materials and wage-goods needs* of the growing manufacturing sector can be met, while labour is released. Standard analyses of the industrial revolution in Britain and of capitalist growth in Japan stress the prior agricultural revolution. In fact the requirements of satisfying raw materials and wage-good needs of industrialization by a transformed agriculture were not fulfilled in either country, and in Britain actual developments hardly justify the term "agricultural revolution" in the eighteenth century, as claimed by textbooks. Landlords in Britain, however improvement-minded they might have been, were not frugal entrepreneurs, but conspicuously consuming rentiers by the sheer fact of their continuing monopoly over landed property; and their capitalist tenants did not particularly distinguish themselves either. Wheat output grew by only 43 per cent from 1700 to 1800 according to Mingay's estimate; total cereals output growth was broken up into a 25 per cent rise in area and 10 per cent rise in yield, while between 1800 and 1850, area did not increase any further and yield rose another 5 per cent (Mingay 1977; Chambers and Mingay 1967). The compound growth rate over the 150 years from 1700 to 1850 works out to 0.27 per cent, a little better than stagnation. (Even before Borlaug technology, using traditional varieties, Indian wheat output was growing more than 10 times faster during 1950–1965.) Rising dependence on net wheat imports started from 1780 onwards and, although constrained by the Corn Laws, sometimes reached 15–16 per cent of domestic production in some years of the hungry 1790s. (When the grain imports into the former Soviet Union reached a similar percentage in the 1980s, its agriculture was deemed to have been extremely inefficient.) Grain imports grew even more sharply once the Corn Laws were abolished (Davis 1979:36–42). The growth of livestock products was not rapid enough to meet domestic needs either, despite convertible husbandry. According to Jones (1981:67), it was meat, butter, and wheat and wheaten flour imported from colonized Ireland that fed 18, 11 and 12 per cent respectively of the 1801 English population. The main raw material of the industrial revolution, raw cotton, was of course entirely imported.

In Britain, retained imports of all primary commodities as a percentage of domestic production in the primary sector was 48 in 1805, which increased to 65 by 1825 and reached 104 per cent by 1855 (Davis 1979:51, table 31). A developing country today with this degree of import dependence for wage goods and raw materials would plunge into external imbalance and deep indebtedness. Similarly, in Japan, domestic wage-goods needs could not be met out of domestic production. Net rice imports started from the 1890s and grew sharply after the First World War, until over one-fifth of Japan's rice requirements, or virtually all urban consumption, was being met from imports from Korea and Taiwan, with Korea exporting over half its own domestic rice output to Japan at the expense of a drop in per capita calorie intake of colonized Koreans (Penrose 1940; Grabowski 1985). Import dependence for raw materials and minerals in which Japan was deficient was also very high. By 1937 Japan was running a trade deficit of nearly one million yen with Manchukuo alone.[5]

Despite the comprehensive failure of their domestic agricultural sector in meeting wage goods and raw-material needs and their resulting high import dependence, how did these industrial pioneers avoid balance-of-payments problems and external indebtedness? In fact, they usually had adverse trade balances and adverse current account balances, taking into account the normal invisible earnings (since their external investment was very small and thus the return on investment was only a fraction of deficits during this early transition period). Yet enormous current account deficits (after factoring in the normal invisible incomes) never obliged them to borrow to attain overall external balance in their payments, as today's developing countries are obliged to do. On the contrary, Britain actually exported capital on a large scale to continental Europe and to countries of recent European settlement, incurring growing balance-of-payments deficits with these regions.

The answer lies in the large unilateral transfers from their colonies in the form of an unrequited merchandise export surplus which, for accounting purposes, was more than offset by politically imposed charges. While the colonies provided the required wage goods and raw materials (or largely paid for them by their exchange earnings, even when some wage goods or raw materials were obtained from other temperate non-colonies), the resulting large trade deficit of the metropolis involved no external payments liability for the metropolis. This was because colonial producers were paid in local currency for their net exports, out of the taxes they themselves had contributed to the colonial state. In other words, they were not paid at all: the net export represented embodied taxes. In effect, colonizers operated a surplus budget. The exported goods represented the commodity equivalent of a part of internal tax revenues, which was transferred by this means. In some cases, as in the Caribbean, mainly slave rent (and not taxes) was transferred, embodied in unrequited export surplus. Despite serving as compulsorily open markets for manufactures from the metropoles, colonies were made to generate large and systematic merchandise export surplus as the vehicle of transfer.

The only discussion of *transfer* in the theoretical literature in economics, however, relates to German reparations between the two World Wars. The centuries of large-scale colonial transfer are simply not cognized nor conceptualized theoretically—in short, they are completely ignored in mainstream literature. This has been aided greatly by the fact that in the sphere of alternative

[5] See Hayami and Ruttan (1970); Grabowski (1985); and Schumpeter (1940), which contains informative chapters by E. Penrose and E. Schumpeter.

economics, neither neo-Marxists nor the Latin American dependency school have displayed the required intellectual energy to redress this neglect. The conceptualization and modelling attempted by the neo-Marxists has unfortunately been misconceived at the theoretical level, by assuming away the economic implications of asymmetric, monopoly advantages and the exercise of sovereign power by some countries over others.[6] There is a prolix descriptive literature in this field, which refers repeatedly but in vague and general terms to the transfer of surplus from colonies or dependencies to metropoles. There is, however, a quite remarkable absence of concreteness in this literature; there is no working out of what the macroeconomic mechanism of transfer was for a given country over a given time period (the actual mechanisms varied). Hence there is not a single painstaking quantitative estimate based on theoretically rigorous and explicit conceptualization of the actual magnitude of transfer relative to the trade and GDP of the transferring country or relative to trade, GDP and capital formation in the metropolis. In short, there is no satisfactory colonial macroeconomics; there are thus no reliable estimates of transfer informed by a thorough knowledge of the underlying macro relationships.[7] On the other side, those who deny that colonial transfers existed or who try to "prove" that the colonies were a burden on the metropoles, show a total innocence of any macroeconomics at all, whether of the standard or the dissident variety.

In the case of Britain, the estimates made by its mainstream economic historians, of even its total trade and trade-GDP ratios during the period of the industrial revolution, are conceptually incorrect and represent underestimates, because they exclude a large part of the colonial trade.[8] In the case of Japan (which similarly extracted rents and taxed its colonized population, and transferred food grains and raw materials to itself through a rent and tax-financed import surplus), no rigorous analysis of the macroeconomics of Japan's relations with its colonies—magnitudes of taxation, rents, investment and transfers—has been carried out by Japanese economic historians to date.[9]

The magnitude of the one-way transfers from the colonies was in fact very large. At the time of the industrial revolution, a conservative estimate for 1780 to 1820 using British trade data series,

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6 The value-price model of the fully capitalist economy of Marx's *Capital,* with its assumptions of *competition* and *perfect mobility* of capitals, has been blown up to a world level by treating the agricultural sector of the model as representing colonial or dependent economies and the industrial sector as industrial metropolitan economies (Emmanuel 1972; Amin 1974, 1979; Frank 1978, 1979). This is an incorrect conceptualization for colonial and dependent relationships and leads to a dead end. For an early critique, see Bharadwaj (1986) and U. Patnaik (1986).

7 The best approximations as regards quantification, are probably those by the Indian academics starting from Dutt (1960) and Naoroji (1962) earlier, to Bagchi (1976) and Habib (1975) at the present day. The merchandise export surplus, taken by them as the measure of transfer, however remains an unsatisfactory approximation, as normal invisible debits are usually not taken into account or distinguished from the politically imposed charges, nor is there any estimate as a time series of the importance of transfer relative to capital formation, trade and GDP whether of the transferring country or of the metropolis. Data for doing this do exist.

8 Economic historians of Britain (Deane and Coale 1969; Thomas and McCloskey 1981; Crafts 1985) routinely exclude re-exports, four-fifths of which were tropical goods, when presenting British export growth and trade growth data. But the standard internationally accepted definition of trade, used in all professional textbooks and in the United Nations publications showing world trade data, is always inclusive of re-exports. I have attempted to build a conceptually correct series of British trade for the period 1697 to 1804 (see U. Patnaik 2000), which shows an average trade/GDP ratio of nearly 30 per cent by 1800, far higher than the 18 per cent implied by the existing underestimates, and higher even than Britain's trade/GDP ratio in the year 2000.

9 Neither Nakamura (1981) or Yamazawa (1990) take any systematic account of the role of Japan's colonies; nor does Tsuru (1993). The Korean historian Ho Chin Choi (1988) does detail interesting data on Japan's extraction of land rent and taxation of Korea, but without conceptually linking it to transfer through export surplus.

indicates that the magnitude of combined transfers from Asia and the West Indies (measured by the approximate current account deficit of Britain vis-à-vis these regions) amounted to about 6 per cent of British GDP and nearly 80 per cent of investment out of domestic savings (U. Patnaik 2000). For a later period, Saul (1960) in his reconstruction of Britain's balance of payments with countries and regions during 1870 to 1914, finds systematic and increasing overall balance-of-payment deficits vis-à-vis the United States and continental Europe, which were offset by the enormous exchange earnings of colonies from their exports, appropriated by Britain. He concludes that, "The key to Britain's whole payments pattern lay in India, financing as she did more than two-fifths of Britain's total deficits. … The importance of India's trade to the pattern of world trade balances can hardly be exaggerated" (Saul 1960:62, 203).

As Britain's largest, most lucrative colony, India alone was earning 71 million pounds sterling by 1913–1914 from its exports to the world (Saul 1960:197)—the second largest export earnings in the world after the United States. These earnings were siphoned off by Britain to pay for its own deficits, via a managed trade surplus with India plus much larger political charges; while Malaya was earning over 20 million pounds after the First World War, similarly to Britain's benefit. These earnings were used, as always, by Britain to pay for its own large balance-of-payment deficits with respect to the United States and continental Europe, which remained after all visible and invisible incomes and capital flows were taken into account. (Indian and other colonized producers of export goods did not get any part of their net exchange earnings but were "paid" in local currency out of the very same taxes they had contributed.) The very large capital exports made by Britain to develop white settlement areas up to the First World War, and also earn large dividends thereby, would have been quite impossible without the colonial transfers, for there would have been acute balance-of-payments problems and heavy gold loss, and the gold standard would have collapsed decades earlier than it did. The true history of Northern industrialization has not yet been written, because the role of the substantial transfers in international trade and payments has not been conceptualized and integrated into macroeconomic models.[10]

The upshot of the foregoing discussion is that, during their period of industrialization and "drive to maturity", the advanced countries, and in particular the leader, Britain, had large current account deficits with developing regions and owing to their capital exports (to these particular regions, even larger balance-of-payment deficits with them), but no problem of external imbalance ever arose for them because of the balancing role colonial transfers were made to play. The advanced countries obviously cannot serve as a development model for the developing countries, which do not have access to any transfers at all or to compulsorily open external markets, both of which played such an important part in Northern development, whether in Asia or in Europe and, through capital exports from the latter, in North America. On the contrary, as objects of past colonization, they were denuded of a part of their rich resources and their annual surplus, and at independence inherited a legacy of unemployment and poverty. At present, advanced country external markets are only partially open to them, owing

[10] The major industrializing countries, once launched on their growth path, acted as locomotives through the demand they generated, pulling the smaller countries without colonial possessions of their own.

to the widespread use of non-tariff trade barriers. The inferences for the policies they need to follow for a viable development become clearer.

First, resources for development have to be raised internally, so a thoroughgoing, redistributive land reform assumes tremendous importance. Without this, not only would livelihoods in the agrarian sector remain precarious, but the social base of investment would remain narrow, and the ability to raise productivity to meet the raw materials and wage-goods needs of development internally would be severely undermined. Second, the market has to come from the expansion of mass incomes within the country as the main engine of growth. If productivity growth is high enough, the external market can then also be explored.

It would be fair to say that in Asia, the only country that has succeeded in pulling itself up by its own bootstraps is China, and the fundamental reasons lie in its radical land reforms, co-operative pooling of resources to raise investment, and the resulting rapid expansion of employment, incomes and the internal market in the first three decades of development.[11] In India, the very promising start in the 1950s was subverted over time by the failure to carry out redistributive land reforms and the consequent lagging growth of the internal market for mass consumption goods and hence for capitalist industry. The next section will look at these propositions in more detail.

The importance of land reforms and a wider social base of investment in stabilizing and improving livelihoods

The general problem of archaic semi-feudal relations and tenures has been tackled historically in different countries through two main alternative paths or strategies: *landlord-dominated redistribution* and *peasant-dominated redistribution*. In the first, more conservative path, there is no radical takeover of land by peasants; the landlords continue to monopolize land and may give up only a part of it against compensation; but they may themselves begin to turn into capitalist producers, evicting their former tenants and employing them as hired workers. In the second more democratic and revolutionary path, the land is seized without compensation from the landlords and distributed to the landless and land-poor peasants, while the rural capitalists emerge from the ranks of the well-to-do sections of the peasants. The first path preserves land monopoly, the second abolishes it. In the Western context the two paths are known as the Prussian Junker path and the American path, respectively. In the Asian context, the conservative path can be characterized as the Meiji Japan path, while the second, more democratic path, was that followed in Japan after the Second World War, and in China after liberation.

Thus in Japan, after the 1868 Meiji restoration, even though the feudal high nobility—the *daimyo*—lost their rights, they were compensated heavily with cash and bonds, and very little land went to the actual tillers, for it was mainly the village-level non-cultivating bigger

[11] Those seeking to downgrade these achievements of the period of egalitarianism in China, 1950–1980, often focus only on near-stagnant daily real wage. But total real income per worker rose substantially owing to more days employed per worker, while higher participation rates by women drawn into productive paid work also raised household incomes and well-being. To this should be added the provision of public goods—basic health care and education—which led to rapid decline in death rates and in illiteracy.

landowners who were given the *chiken*, or certificates of ownership. Under this conservative landlord-dominated reform, small tenancy grew rapidly to cover over a third of the rice area (Norman 1940), and high rents along with tenurial insecurity became such a fetter on productivity that rice output stagnated. Japan turned to colonized Korea, which by 1937 was made to supply 65 per cent of the increasing rice imports on which the urban areas depended heavily. By contrast the post-Second World War land reform in Japan was a peasant-dominated radical redistribution in which the ceiling for the landlord's personal ownership was placed at 1 *cho* or 2.45 acres, and the remainder (amounting to one-third of total cultivated area) was given to the tenants. The data show that as tenant area fell to below 5 per cent of total cultivated area, rice yields spurted upward (Nakamura 1981).

In China, an even more comprehensive peasant and landless-dominated redistribution took place in which an estimated 43–45 per cent of total cultivated area passed from the monopoly landowners to the landless and land-poor, creating a highly egalitarian distribution.[12] Co-operatives in the 1950s, and later the larger scale communes, permitted underemployed surplus labour to be mobilized on a massive scale and investment to be stepped up, especially in water management, while non-farm enterprises, and basic health and education also spread rapidly in villages mainly through decentralized, local co-operative effort, aided where necessary by supplementary central grants. Much of China's good growth, reduction in rural poverty and excellent performance on the human development indicators can be traced to the initial egalitarian land reform and its consolidation through the decentralized units like co-operatives and the later commune system up to 1980.[13]

In India, too, land reforms can be usefully analysed in terms of the two-path conceptualization sketched above. There is no doubt that it is the conservative path of landlord-dominated redistribution that has taken place in all the states, with the exception of Punjab. When intermediary landlord tenures (*zamindar, jagirdar*) were abolished, it was these powerful former intermediaries who got automatic ownership rights over the land they claimed as *khud-kasht* (self-cultivated), and they were also well compensated with cash and bonds for the small part of their estates they gave up to the state. Some land was also taken over from larger owners, as excess over statutory "ceilings" on landholding. An estimated maximum of only one-eighth, or about 12 per cent, of total cultivated area has been redistributed at the all-India level in the four decades of reform (from 1950 to 1990) through the market mechanism; namely, after vesting in government, land has been sold to the better-off tenants who already owned some land and who could afford to pay the purchase price. The ex-intermediaries continued to monopolize land ownership and extract rent from both recorded and unrecorded tenants in many states, while going in for hired-labour-based cultivation in others.[14]

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[12] See Lippitt (1987); Hinton (1968); and Nickum (1974).

[13] Allegations of massive famine deaths of up to 30 million during the Great Leap (1958–1961) have been carefully examined by the author (U. Patnaik 2002c); nearly 20 million of those alleged to have died, were not born in the first place; in short, the fall in the birth rate is illegitimately included to compute "famine deaths". The other route used by the US demographers (Coale 1981; Banister 1987) to talk of high "famine mortality" is based on a number of arbitrary procedures, including reconstructing a new total of deaths, arbitrarily allocating this total over particular inter-censal years, and is based also on arbitrarily fitting linear time trends to deaths derived from a variable—the death rate—which always behaves non-linearly.

[14] These issues are discussed with supporting references and evidence in more detail in U. Patnaik (2002b).

There are, however, wide variations among states in India in the effectiveness with which existing land reform and tenancy laws (which are already quite conservative) were actually implemented, and in the extent of complementary measures like revival of regular elections to local self-government bodies (the *panchayat* system). In eastern India there is a stark contrast between West Bengal, where a Left Front government has been re-elected recently for a record sixth term since 1977, and the neighbouring states of Bihar and Orissa, which are the two poorest states in the country. The West Bengal experience with respect to tenancy reform and addressing gender inequality in land control, will be taken up for brief discussion in section 5.

Developing countries that do not tackle the question of archaic agrarian relations and effectively abolish land monopoly soon find that their development strategy runs aground because of an insufficiently expanding internal market, a market that only a prospering peasantry can provide. Preserving land monopoly, as most states in India have done, means two things: first, maintaining the fetters on productivity growth within agriculture itself, for those monopolizing land will not have an adequate incentive to invest, and those forced to lease land or to labour for hire do not have the means to invest. Needless to say, all the painful aspects of high caste domination and discrimination against the *dalit* (literally "ground-down") population are also preserved. Second, it means that mass incomes hardly grow and hence the market for manufactures of mass consumption becomes near-stagnant, and companies start looking to the external market through collaboration with foreign companies.

These problems of the *dirigiste* development strategy in India led to a naive belief among many that economic liberalization would solve growth problems, and they welcomed the successful attempt by the BWIs, using the Gulf War conjuncture in 1991, to impose a neoliberal programme of structural adjustment through a minority government and a pliant finance minister (Patnaik and Chandrasekhar 1995). This has been followed by incessant pressure to liberalize trade completely, especially after the formation of the World Trade Organization (WTO) in 1995, and to undertake financial liberalization and privatization of public enterprises. Starting in 1997, all quantitative restrictions on imports were removed by April 2001. As predicted from the beginning by the critics of globalization within India, the result in the 1990s has been to turn problems that could have been tackled into a crisis of unprecedented dimensions, in which employment growth has collapsed and the purchasing power and food security of the poorer majority of the population have been severely eroded.

3. Agrarian Crisis, Deflationism between the Two World Wars and its Present-Day Variant

The second important lesson to be learned from history relates to the dangers of deflationist policies in an already recessionary world economy, as was the case during 1925–1935, and as is the case today. An agrarian crisis is currently unfolding in India—and indeed in a large number of developing countries—involving a collapse of employment growth, falling export prices and a rising spiral of farm debt. The crisis is directly linked to the contractionary fiscal stance of governments undertaking neoliberal reforms, and to trade liberalization against a background of world recession.

This agrarian crisis is likely to be prolonged as long as the present policies of openness to the world market continue to be followed, because the global conditions of trade in primary commodities are extremely unfavourable at present and are likely to continue to be unfavourable. It is significant that the World Bank's price projections to 2005, made in a 1993 report, are not being borne out by the actual global price trends experienced so far. While the World Bank had projected fairly steeply falling prices for non-grain products exported by developing countries, it had projected firm and even rising prices for food and feed grains, which are exported by advanced countries. (The United States and Western Europe together dominate the global market for food and feed grains.) The price projections were for real prices, namely, the particular primary product price divided by an index of manufactured goods prices.

Actual price trends have been very different from projections. On the one hand, after a brief upsurge in the early 1990s, prices of primary products mainly exported by developing countries have been crashing; on the other hand, contrary to all projections, so have prices of cereals exported by developed countries. Moreover, the trough in food and feed grain prices has been exceptionally prolonged. Since the decline began in 1996, these grain prices have remained depressed to levels about half of the level prevailing in the mid-1990s. As a consequence, with the removal of quantitative restrictions and opening up to global trade, not only are those developing country farmers engaged in growing exported cash crops (such as tea, coffee, rubber and cotton) suffering, but the livelihoods of millions of foodgrain producers are also being undermined as a result of imports of exceptionally low-priced foreign grain. *By liberalizing trade, and by opening up at this juncture, the depression in the global markets is being imported into the Indian economy and into other liberalizing countries.*

Table 6 gives some idea of the pervasiveness and extent of price decreases for some of the most important globally traded crops. All commodities, whether temperate cereals or tropical crops, declined strongly in current dollar price between 1995 and 2001. The extent of decline ranges between over one-third to over one-half, except jute and groundnut oil which have declined to a smaller extent, and other edible oils which have declined more than average. Many prices in current dollars were substantially lower in 2001 than they were even as far back as in 1988. The largest decline was for some of the edible oils, which by 2001 had only 12 to 15 per cent of the unit value they had in 1995. A halving of the price of the major staples like rice, wheat and maize (shown by the figures below) has had very serious implications for the incomes of producers, not only of the exporting countries but also of countries that are now forced to become cereal importers because of the removal of protection. Farm debts are rising, and developing country farmers in particular are getting caught in a spiral of escalating indebtedness and land loss, as was the case in the period between the two World Wars.

For those who know something of the history of capitalism, the situation today is strongly reminiscent of the run-up to the Great Depression. From 1925, four years before the famous stock-market crash of 1929, all primary product prices started falling while there was a build-up of stocks; this took place, it is argued, because of over-production relative to demand in a number of large producing countries (Timoshenko 1953). Up to 1929 the agricultural recession was just that, and there was no premonition that generalized deep economic depression was to follow. To this day some analysts maintain that the industrial depression was independent of the agricultural depression that preceded it. But such a position appears to be unrealistic, considering the deflationary policies that were followed systematically by almost all primary product exporters as their revenues fell.

Table 6: Prices of some important traded primary products (in US dollars)

	1988	1995	1997	2000	2001 (Jan.)	Per cent change 2001 over 1995
Wheat (US HW variety)	167	216	142	130	133	–38.2
Wheat (US RSW variety)	160	198	129	102	106	–46.5
Wheat (Argentine)	145	218	129	112	118	–45.9
Maize (Argentine)	116	160	133	88	80	–50.0
Maize (US)	118	159	112	97	92	–22.0
Rice (US)	265.7	—	439.0	271	291	–33.7
Rice (Thai)	284	336	316	207	179	–46.7
Groundnut oil	590	991	1,010	788*	—	–20.5*
Palm oil	437	626	93.5	74.7*	—	–88.1*
Soyabean oil	464	479	625	71.4*	—	–85.1*
Soyabean seed	297	273	262	199	178	–34.8
Sorghum seed	110	156	111	102	99	–36.5
Sugar	10.2	13.3	11.4	10.2	9.2	–30.8
Jute	370	366	302	276*	__	–24.6*
Cotton	63.5	98.2	77.5	66	49.1	–50.0

Source: *Food Outlook,* various issues from 1996 to 2001 (available from the Global Information and Early Warning System on Agriculture, United Nations Food And Agriculture Organization Web site at www.fao.org/giews/english/fo/fotoc.htm); and *Monthly Commodity Price Bulletin* (UNCTAD 2001).

For the cereals, edible oils and seeds the unit is US dollar per ton; for cotton and sugar, US cents per pound; and for jute, US dollar per metric ton.

* Relates to 1999, and per cent change is 1999 compared to 1995.

Table 7: Percentage of producer subsidy equivalents to total agricultural production by selected countries

Year	Australia	Canada	European Commission (10 countries)	United States	Japan
1980	5	15	25	9	71
1981	8	16	30	12	65
1982	15	20	42	14	77
1983	8	19	26	34	79
1984	9	25	24	21	81
1985	13	39	44	26	86
1986	19	54	66	45	93

Source: Ingersen et al. 1994.

Kindleberger draws the connections between agricultural depression and industrial depression, precisely through the deflationary policies, especially expenditure cuts that were universally implemented by governments committed to the then dominant ideas of "sound finance", namely, balanced budgets. Despite his occasional criticisms of Keynes, it is essentially the working out of the Keynes-Kahn multiplier, which involves reducing incomes by a multiple of initial expenditure cuts with cumulative adverse effects on employment and trade, which is detailed in his account of the impact of deflationary policies followed in various countries (Kindleberger 1987, chapters 4 and 8). With falling export earnings, the major primary products exporters (which apart from tropical colonies and developing countries, included Germany and the United States) found their trade balances moving toward or into the red, strong pressure on their currencies and tax revenue decline. Maintenance of sterling exchange parity had an "almost mystical force" (Kindleberger 1987:85), so initially devaluation was ruled out and balance of payments and fiscal deficit problems were addressed solely through deflation.

Finance ministers in all countries at that time subscribed to the dogma of balanced budgets, a dogma upheld and promoted by financial interests in the City of London, the main centre of the financial world at that time: they reduced public expenditure (today, they "cut the fiscal deficit", which is a slightly modified version of balancing budgets, as an initial deficit is assumed). Through the reverse multiplier effects of such expenditure-reducing policies, income in each country was reduced to a much greater extent than the initial cuts, thus reducing importing capacity and resulting in lower export incomes of trading partners. The affected countries in turn deflated their economies when faced with external imbalance and falling revenues. A mutually reinforcing deflationary spiral reduced demand for manufactured goods and unemployment rose steadily, as income growth slowed down or declined worldwide. Massive gold losses by deficit countries forced them off gold years before Britain left gold in 1931, while other countries quickly followed Britain.

According to data in Triantis (1967) there were only seven other countries in the world that suffered a larger export earnings decline than India. In response to falling revenues, the colonial government cut expenditures sharply, and thereby greatly worsened the problem of falling farm incomes and poverty. Between 1927–1928 and 1937–1938, expenditure on roads, irrigation and railways fell from 27 to 18 per cent of (declining) public expenditures. The expenditure cuts worsened the employment prospects of peasants who entered the labour market because they were no longer able to make ends meet from cultivation. During the 1931 census, 38 per cent of all rural workers reported relying mainly on wage-paid work, compared to 26 per cent in 1921 (Bagchi 1972, 1982; Thavaraj 1960). A great deal of land changed hands against debts incurred, and landlessness increased—a typical pattern in a crisis situation. At the same time per capita food availability was falling by 29 per cent in British India, and by as much as 38 per cent in Bengal during the period between the two World Wars, resulting in a slightly lower order of fall in per capita calorie intake (Blyn 1966). I have elsewhere argued that this prior fall in nutrition levels had a great deal to do with the magnitude of the toll in the great Bengal famine of 1943–1944 (about 3 million people died), although inflationary war financing was the proximate cause of famine (U. Patnaik 1999).[15]

In 1929, the former British Prime Minister Lloyd George suggested that public works be used to generate employment. At that time, the unemployment rate in Britain was 10 per cent (it was to double to 20 per cent later), and the proposal was supported by Keynes in a pamphlet (Keynes and Henderson 1929). The mere suggestion of expansionary policies caused consternation in the City. The British Treasury, articulating financial interests, hurriedly brought out a White Paper in the same year to counter Lloyd George, titled *Memorandum on Certain Proposals Relating to Unemployment*. This argued that in an economy at a point in time, there was a fixed pool of savings, and spending more on public works would simply reduce private domestic investment or foreign investment and have no net positive impact on employment. (Today the neoliberal deflationists put forward the same argument using slightly different jargon—that increased public expenditure will simply "crowd out" private investment. Exactly as in the Treasury view, they assume a fixed savings pool.[16])

Keynes strongly opposed this view and was searching for a rigorous formulation of the counter-argument. This was provided by Keynes's young pupil, R.F. Kahn, who developed the argument by mid-1931 and exposed the fallacy of the Treasury view in a paper published later that year, which deservedly became a classic (Kahn 1931).

Kahn's argument was simple enough for any informed layperson to understand. He pointed out that total savings in an economy depends on total income and—unless income itself cannot be increased because there is already full capacity utilization and full employment of labour—there is no reason to think that savings cannot increase. There is no given, fixed savings pool. If there is already full employment, then public works are unnecessary anyway. If there are unemployed resources and manpower owing to lack of aggregate demand, as was actually the case, then expenditure on public works would result in employment and incomes rising

[15] When it came to financing Britain's war in Asia after 1941, all thoughts of balanced budgets were thrown to the winds, and the enormous burden of war financing to the annual tune of three times the size of its normal budget, was placed on India. Printing money, thereby extracting forced savings via food price inflation, was the main mechanism of financing, leading to deaths by starvation, especially in Bengal.

[16] It followed from the Treasury view that public works could never increase total employment in an economy, since the increase in employment brought about by public works would be exactly counterbalanced by the reduction in employment arising from reduced private and foreign investment.

through several rounds of spending (the multiplier) until precisely that amount of extra income resulted, which would give the extra savings for financing the initial extra expenditure. The Treasury economists were fallaciously using an argument that required the implicit assumption of full employment in order to oppose measures to combat unemployment. Kahn's argument was central to Keynes's theory, which said that savings did not determine investment but, on the contrary, autonomous expenditure determined savings via the rise of incomes by a multiple of the initial expenditure.

In Germany inappropriate deflationary policies in the face of a farm crisis and rising industrial unemployment contributed to a disastrous outcome by 1931, for they aided the collapse of the Weimar republic and the rise to victory of fascism. Chancellor Heinrich Bruning implemented punishing contractionary policies as late as 1930–1931, when unemployment was already high, and earned the nickname of the hated "Hunger Chancellor" (he was convinced, it appears, that only these measures would please Germany's international creditors and bring an end to loan-financed reparations).

An army of orthodox economics professors supported Bruning on grounds of sound finance, and they also opposed a proposal in 1930 by Lautenbach, an official in the economics ministry, to undertake bank-credit-financed public works to reduce unemployment. This was the German equivalent of Lloyd George's proposal. A similar proposal for reducing unemployment was formulated for the trade unions by W.S. Woytinsky and others in 1931 and published by the German Federation of Unions the following year (Kindleberger 1987:171–172), but they were all dismissed by the deflationists. Had these intelligent schemes for creating employment actually materialized early enough, the history of Germany and of Europe might have taken a different course.

Joan Robinson refers to "the humbug of finance which Keynes first attacked" (Robinson 1962:95). However, the humbug of finance has a way of reasserting itself whenever financial interests dominate policy, and in recent years this humbug has reasserted itself in the face of all logic, all reason and indeed in subversion of the humanism which had informed the intellectual efforts of its critics seven decades ago. The theory of income determination based on the Keynes-Kahn multiplier has been in every economics textbook for half a century, yet today's neoliberal deflationists try to pass off an old fallacious argument assuming a fixed savings pool as newly minted wisdom. Using the power of their status as creditors, they enforce deflationary policies in the face of unemployed resources and thereby condemn millions of people to declining income, asset loss, nutrition decline and even starvation. Today in India, for example, enormous food stocks in excess of 60 million tonnes coexist with falling average nutrition and starvation deaths, but all suggestions for a massive food-for-work programme are being dismissed by the deflationists, expressing the BWI view on the same fallacious ground, that it would "increase the fiscal deficit and crowd out private investment". The manner in which neoliberal deflationist dogma is leading to these outcomes at present in India is discussed in section 4. But this adverse welfare outcome can already be seen in all its starkness in sub-Saharan Africa.

The extent of the fall in prices between 1995 and 2000 was as great for many primary commodities as it had been between 1925 and 1930. At that time, for example, wheat prices had declined from an index of 140 to 80 (taking base 1929=100) or by 43 per cent, cotton from 120 to 70, or by 42 per cent, sugar declined as wheat did, from 140 to 80 or by 43 per cent. (These figures are quoted from graphs by Timoshenko and the League of Nations, reproduced in Kindleberger 1987:76–77.) As may be seen from table 6, the decline for these crops during 1995 to 2001 was of a similar order, by 46, 50 and 31 per cent respectively.

What is the reason for the recent prolonged decline of primary prices, especially those traded by the advanced countries? An important difference in the present global situation, compared to the 1920s, is that there has been an even more prolonged dominance of neoliberal orthodoxy—an orthodoxy similar to the pre-Keynesian balanced budget doctrines—which has been effective in imposing loan-conditional income deflation across the globe for over two decades, since the late 1970s. The global dominance of finance capital has meant a ruthless imposition, through the international lending institutions, of effective demand-contracting economic agendas on dozens of countries, entailing the measures of cuts in fiscal deficit, high interest rates, caps on wages, reduction in priority sector lending, cuts in social subsidies, retrenchment of workers from enterprises, privatization of public sector undertakings, and so on. The impact of these income-deflating policies have been detailed already. The 1990s also saw a generalization of deflation over larger areas of the world, with the GDP collapse and demographic decline of the so-called transitional economies and with the East Asian crisis from 1997, which has sharply reduced trade growth.

It is perhaps hardly surprising that the results of two decades of the globalization of deflationism are now becoming visible in price declines of the major commodities. Our argument has been that it is not temporary overproduction, but cumulative demand deflation that lies behind these declines, hence we cannot expect a sustained upturn unless the basic deflationary macroeconomic policies are reversed.

In an earlier, more detailed examination of the behaviour of output, price and stocks of a number of primary commodities taken individually, I have shown that the recent price falls are combined with, and in spite of, *rising global stocks* in each case, indicating that price slippages would have been even greater without stocks accretion—just as was the case in the 1920s when, similarly, stocks had built up at the same time that prices fell (U. Patnaik 2002a; Timoshenko 1953). Stocks cost money to hold, and how much longer this can go on, with little present prospect of a major revival in global demand, is a moot point: whether another 1931 is already in the making, with further price declines in store, deepening the crisis of developing country peasantries, is the question.

The supply side of the picture as regards the temperate exportable products is also important. Very large agricultural subsidies are given by advanced countries to their farming sector—which includes the giant agro-business corporations—in order to capture global markets and maintain corporate profits. Every episode of falling global food and feed grain prices leads to subsidies being increased, sending the wrong signals. Instead of a cutback, over-production is promoted and hence there are even more aggressive attempts to penetrate developing country markets. While lecturing the developing countries on the iniquity of subsidies, the advanced countries, under the pressure of their farm lobbies, keep raising their own subsidies.

Thus between 1980 and 1986, as cereal prices fell by a quarter to a third, the United States had increased producer subsidy equivalent (PSE) as a percentage of its total value of agricultural output from 9 per cent to an astronomical 45 per cent. All European countries did the same: the average rise for the 10 countries of the then European Economic Community was from 25 to 66 per cent, while Japan raised it from 71 to 93 per cent (see table 7). A small part only (termed the "aggregate measure of support") of these highly inflated mid-1980s subsidy levels was then made the base, from which a mere one-fifth cut was undertaken by advanced countries in compliance with the 1994 Agreement on Agriculture of the General Agreement on Tariffs and Trade (GATT).

After two to three years of reducing subsidy in compliance with the WTO (see OECD 1998), large increases in transfers were again effected as soon as prices started falling from 1996 onward: thus the United States increased total transfers to its farm sector from $71 billion to $96 billion or by 35 per cent, between 1997 and 1999. The share of transfers to agricultural output, which had fallen in the United States to 34 per cent by 1996, rose again to over 50 per cent by 1999, and for the OECD 24 group, it rose to nearly 60 per cent (table 8). In absolute terms, these annual transfers to a few million farmers by the United States or Japan exceed the entire gross national product (GNP) of the majority of developing countries. While some analysts are inclined to think that it is these subsidy increases that are contributing to the global price fall of temperate land commodities as a worked-out strategy of capturing external markets, I disagree. In my view as discussed earlier, it is the income-deflationary trends inherent in neoliberal policies that have affected global demand, causing stock build-up combined with price fall, and it is in response to price declines that the farm and corporate lobbies have mounted successful pressure on their governments for cash bail-outs. Annual ad hoc increases in subsidies totaling $30.8 billion were made in the US in the four years up to 2002. In November 2002, the US Congress approved a farm bill giving a total of another $57 billion over the next six years, a measure which evidently assumes continuing price deflation. Thus transfers in the United States will amount to around $80,000 annually per full-time farmer by 2008.

Clearly, if compensatory increases in farm transfers are made every time there is a fall in price, this compounds the problem of excess supply in advanced countries. It also induces very strong pressure by these advanced countries on developing countries to open their markets to grain and dairy products, as seen already in the Philippines and recently India, years before they were required to do so under the WTO. This contributes to the vicious circle of economic distress by undermining the incomes of local farmers.

Those researching issues of land rights and gender should expect to see several adverse outcomes in countries most affected by the economic forces discussed so far: increasing loss of land by poorer farmers under the pressure of debt, perhaps also increasing flight from the land, greatly increased problems of women and children in the form of sales of people into servitude, and a rise in prostitution and beggary. In India, agrarian distress is manifesting itself in the increased enmeshing of farmers in unrepayable debt, large numbers of farmer suicides, and increased sales of bodily organs for transplant purposes (as discussed in section 4).

Table 8: Estimates of support to agriculture in 24 OECD countries and the United States (in million US dollars)

	1986–1988	1997	1998	1999
OECD 24				
Total value of production (at farm gate)	500,752	624,164	585,034	548,527
Total support estimate (TSE)	275,630	291,268	323,962	325,997
Percentage of TSE to total value of production	*55.04*	*46.5*	*55.4*	*59.4*
United States				
Total value of production (at farmgate)	143,624	208,673	194,174	189,245
Total support estimate	68,254	71,628	88,150	96,530
Percentage of TSE to total value of production	*47.5*	*34.3*	*45.4*	*51.0*

Source: OECD 2000:161, 249.

Note: The OECD 24 Group excludes Czech Republic, Hungary, Korea, Mexico and Poland.

4. Effects of Liberalization and Structural Adjustment Programmes on Employment and Food Security in India

This section will deal with the impact of liberalization and adjustment on rural livelihoods, land use and food security in India. While some developments may be specific to India, however, the general thrust of policy impact in terms of deteriorating employment and food security is common to most developing countries.

Analysts of long-term trends in India find a sharp contrast between the pre-reform 1980s and the 1990s, which started with income-deflating economic reforms. During the Seventh Plan period (1985–1990), public expenditures on rural development and employment generation rose to 13.2 per cent of GDP, almost double the previous level (see table 9). The minor drought of 1987 gave an impetus to employment-generating schemes in particular. A number of state governments, especially the South Indian states and West Bengal, also extended the Public Distribution System (PDS) of foodgrains and other necessities to villages and gave additional subsidy out of local budgets over and above the central food subsidy, to keep basic staples affordable for the poor. Rural employment was diversified as state development expenditures rose, so that 29 per cent of rural workers were reporting non-farm employment by 1990, compared to 25 per cent five years earlier (Bhalla 1996; Sen 1996). Real wages in crop production also rose by half following the increase in alternative employment. A fairly sharp fall in the measured rural headcount poverty rate in rural areas resulted, from about 45–50 per cent in the late 1970s, to about 35–36 per cent by 1990 (tables 11 and 14).

These positive trends regarding food security and poverty reduction came to an end in 1991. The temporarily abnormal situation created by the impact of the Gulf War on India was used to take an IMF extended financing facility loan of $4.8 billion, with a commitment to liberalize and implement structural adjustment programmes (SAPs). In July 1991, on the advice of the Fund and the World Bank, the newly elected minority central government immediately slashed development expenditures to contain the budget deficit and made it more difficult for state governments to borrow. By 1993, rural development expenditures had fallen to 7.8 per cent of GDP, and they have since stagnated (table 9). At the all-India level, poverty had risen sharply by 1992, according to all estimates (to 43–44 per cent in villages according to three independent estimates, a level not seen for a decade, and to 48 per cent according to a fourth estimate).[17] The crude death rate also rose in a number of states in 1992, as did the infant mortality rate. Poverty rose mainly because non-farm jobs were badly affected, the proportion of workers in lower-return farm work rose to 74 per cent and earnings fell (Sen 1996; Bhalla 1996, 1997).

The rate of agricultural growth slowed markedly under these reform policies. At the same time, there was a significant shift in land use and cropping patterns toward export crops at the expense of foodgrains consumed by the local population. The foodgrains growth rate declined by half and, at 1.8 per cent, fell below the population growth rate (even though the latter itself was falling) in the 1990s, for the first time in 30 years (table 5). A combination of the declining supply and reduction in purchasing power badly affected food security for the poorer half of the population.

On the industrial front, as imports were allowed, the pent-up demand of the top 10 per cent of the population for modern consumer durables kept activity levels in this segment high for a few years. But as this one-time stimulus played itself out, domestic manufacturing was eroded by freer imports, and industrial stagnation set in from 1996. The industrial recession and the collapse of agricultural growth are both reflected in the latest employment data for 1999–2000 (from the 55th round of the National Sample Survey; see table 10). While high agricultural output growth in the late 1980s was matched by employment growth, the collapse of output growth in the 1990s under reforms is reflected in the abysmally lower rate of growth of rural employment (0.58 compared to 2.01 per cent). This reform period growth rate would be even lower if measured—as should be the case—from 1991 rather than 1993, for the sharpest macroeconomic contraction came in 1991–1992 and 1992–1993. Similarly, the slowing down of manufacturing growth is reflected in the lower growth of urban employment in the last period, and its terminal year precedes the period of the full impact of recession.

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[17] The three estimates agreeing about a rise to 43–44 per cent were Gupta (1994); Sen (1996); and Ravallion and Datt (1995). The fourth was by Tendulkar and Jain (1995).

Low rates of employment growth show their impact in two ways: first, via a rise in the rate of unemployment, and second, via a decline in the work participation rate. When job opportunities are fewer, many workers, especially women, simply drop out of the workforce. The data confirm both these tendencies. The daily status unemployment rate rose between 1993–1994 and 1999–2000 for rural males, rural females and urban males (urban females were the only exception), with the rise for rural males being the steepest (29 per cent). If the more stringent concept of weekly status unemployment is used (that is, a person belonging to the workforce who did not work for even one hour on any of the seven days preceding the date of the survey), there is an increase in the 1990s, from 15 per thousand in 1993–1994 to 21 per thousand in 1999–2000 for rural males, or a 40 per cent rise, and from 6 to 10 per thousand for rural females, a rise of 66.7 per cent.

Between 1994 and 2000 there was a decline in worker/population ratio for all categories. Taking both males and females into account, the decline was from 444 per thousand to 419 in rural India, and from 347 to 337 in urban India. Taking both urban and rural India together, the decline was from 418 to 395.

Many micro-level studies have established the increasing casualization and feminization of the manufacturing and service sector workforce during reforms.[18] This is the outcome of a number of processes: as large enterprises in the organized sector are wound up or subjected to heavy workforce retrenchment, the workers have no option but to look for casual work; and as household incomes fall, women seek wage-paid work in the informal sector. In the unorganized sector, such as in handwoven and powerloom-woven textiles, escalating costs under liberalization and reforms have forced closure, leading to substantial job loss and the desperate search for casual work by women.

Declining employment opportunities, especially in rural India, are reflected in changes in the headcount poverty ratio. The rural poverty ratio declined sharply until the end of the 1980s, after which it stopped. There was a sharp increase by 1992–1993, which declined as more expansionary policies were followed, but still remained much higher in 1998 than in 1987–1988 (see table 14). The decline in urban poverty, which again was quite sharp in the 1980s, continued into the 1990s, although at a lower rate. Taking rural and urban India together, the "liberalization" years have been bad for poverty, and especially so for rural poverty.[19]

Our analysis of data by state, carried out at greater length elsewhere (Sen and Patnaik 1997), shows that the four South Indian states and West Bengal reduced rural poverty to the greatest extent between 1977–1978 and 1993. Poverty incidence declined by nearly half in these states, and moreover continued to decline even after 1991, owing mainly to the extension of their public

[18] See Bose (1996); Ghosh (1999, 2001); Papola and Sharma (1999); Ramaswamy (1999), among others.

[19] Estimates using the latest, 55th, round of the NSS relating to 1999–2000 show a sharp decline in the poverty ratio. These data however, as the Planning Commission has clarified, are "contaminated" and unreliable, the problem being that the reference period was changed, compared to earlier rounds. In the employment data collected in the 55th round, and quoted earlier, however, there is supplementary information on expenditure which is not "contaminated". This, according to one estimate (Sundaram and Tendulkar 2000), puts rural poverty at 36.35 per cent for 1999–2000, and urban poverty at 28.76 per cent. Of course estimates for the same year differ a good deal depending on the methodology, and other researchers (for example, Sen 2000) have put the poverty ratio higher for this year even with the same data.

distribution system in foodgrains and other necessities. All other states achieved a lower rate of rural poverty reduction up to 1991, and after that saw a more or less sharp rise in poverty incidence. In the case of some states this rise wiped out the entire welfare gain of the preceding decade (see tables 11 and 14). While most states were forced to cut their outlays as a share of state domestic product, as funds from the central government were withheld or as the neoliberal policies were internalized, a few maintained their expenditures (table 12) and cushioned their populations from the shock.

Cropping pattern shifts, price volatility and suicides

As trade was liberalized, from the early 1990s onward there was a substantial shift in the cropping pattern, while total sown area remained unchanged. From an initial area of 127.8 million hectares sown to foodgrains in 1991, 6 million hectares were diverted to the cultivation of exportable crops by the mid-1990s, during which period exports from agriculture grew fast. The main crops that saw rapid area expansion or export thrust were cotton, soyabean and sugarcane, as well as horticulture, floriculture and prawn fisheries, which displaced paddy production in some coastal areas. As global recession took hold, the primary export thrust tended to peter out, and some land reverted back to food crops. Revival of exports from 1998 led to a new round of displacement, so that the net diversion of foodgrains area was over 8 million hectares by 2001 compared to 1991, accounting for a 7 per cent decline in the initial foodgrains area and a 24 per cent rise in the initial non-foodgrains area. We have analysed the details of the cropping pattern shifts in India at length elsewhere (see U. Patnaik 2001), and have long been pointing out that an inverse relation exists in *all* developing countries between primary export thrust and domestic food availability, because the export thrust takes place in a contractionary milieu of investment cuts in agriculture (U. Patnaik 2003a).

Thus, the required degree of productivity rise does not take place to sustain both larger exports and domestic food availability. Just as had occurred historically under completely trade liberalized colonial systems, in the present era of liberalization too, the primary export thrust is at the expense of declining nutrition levels for the mass of the population. This is a strong and categorical argument which has been developed elsewhere and the evidence will not be repeated here; the interested reader is referred to the previous papers (U. Patnaik 1996, 2001, 2003a). The growth rate of the foodgrains decelerated sharply in India over the 1990s, because although yields, while rising, have not risen enough to compensate for the large area decline.

Table 9: Rural development expenditures out of public plan expenditures as share of GDP (current prices)

	1985–1990 (Seventh Plan)	1991–1992	1995–1996	1997–1998	2000–2001
Rural development expenditure as per cent of GDP	14.5	11.7	6.0	5.6	5.9

Source: Calculated from Reserve Bank of India, *Report on Currency and Finance, 1995–96*, Statements 8 and 146, and *Economic Survey 2002–03*.

Note: Rural development expenditures include expenditure on agriculture, rural development, special areas programmes, irrigation and flood control, village industry, employment generation programmes, and energy and transport.

Table 10: Annual rate of growth of total employment (per cent)

	Rural	Urban
1983 to 1987–1988	1.36	2.77
1987–1988 to 1993–1994	2.03	3.39
1993–1994 to 1999–2000	0.58	2.55

Note: The periodization is dictated by the five-year intervals at which large-sample surveys are conducted by the National Sample Survey Organization. They are more reliable than the small-sample surveys of intervening years.

Table 11: Statewise estimates of rural headcount poverty by the expert group method, 1977–1978 to 1993–1994

	1977–1978	1983	1986–1987	1987–1988	1989–1990	1990–1991	1992	1993–1994
Andhra Pradesh	38.1	26.5	14.6	20.9	19.5	22.1	27.4	16.0
Assam	59.8	42.6	39.7	39.4	35.2	33.7	51.7	45.0
Bihar	63.3	64.4	50.1	52.6	52.4	46.3	61.1	58.0
Gujarat	41.8	29.8	30.3	28.7	14.8	21.6	33.7	22.2
Haryana	27.7	20.6	19.5	16.2	13.3	19.5	17.7	28.7
Karnataka	48.2	36.3	36.6	32.8	45.4	34.9	45.5	28.2
Kerala	59.2	51.5	39.0	33.5	29.1	34.4	30.3	26.0
Madhya Pradesh	62.5	48.9	47.8	41.9	39.5	42.4	47.9	40.8
Maharashtra	64.0	45.2	44.6	40.8	34.8	35.9	53.6	38.6
Orissa	72.4	67.5	55.2	57.6	52.9	36.5	49.0	49.9
Punjab	16.4	13.2	13.0	12.6	13.2	9.3	10.2	12.5
Rajasthan	35.9	33.5	29.2	33.2	26.1	25.9	31.7	27.5
Tamilnadu	57.7	54.0	41.2	45.8	38.4	37.5	44.3	32.6
Uttar Pradesh	47.6	46.5	36.6	41.1	30.5	34.8	47.9	42.6
West Bengal	68.3	63.1	47.3	48.3	37.2	49.5	44.0	40.3
All of India	**53.1**	**45.6**	**38.3**	**39.1**	**34.4**	**35.0**	**44.0**	**37.5**

Source: Calculated with National Sample Survey (NSS) and Central Statistical Organization (CSO) data using the method suggested by the Expert Group on Estimation of Proportion and Number of Poor (Sen 1996).

Table 12: Statewise change in the ratio of public expenditures to domestic product comparing the Seventh Plan (1985–1990) with reform years 1991–1992 and 1992–1993

	State outlay as per cent of state domestic product			Change (per cent)	
State	Seventh Plan (1985–1990) actuals	1991–1992	1992–1993	1991–1992 compared to Seventh Plan average	1992–1993 compared to Seventh Plan average
Andhra Pradesh	6.53	4.48	6.04	–31.39	–7.5
Assam	8.06	6.66	5.74	–17.37	–28.8
Bihar	7.57	4.10	4.16	–45.84	–45.0
Gujarat	6.82	7.66	5.67	12.32	–16.8
Haryana	6.78	4.66	4.85	–31.27	–28.5
Karnataka	5.65	5.98	6.75	5.84	19.5
Kerala	5.48	4.45	4.80	–18.80	–12.4
Madhya Pradesh	8.19	6.52	6.3	–20.39	–21.9
Maharashtra	8.73	8.24	7.86	–5.61	–10.0
Orissa	6.13	4.58	4.23	–25.28	–31.0
Punjab	6.34	5.26	3.77	–17.00	–40.5
Rajasthan	5.95	5.89	6.07	–1.00	–2.0
Tamil Nadu	6.81	5.00	5.00	–26.58	–26.6
Uttar Pradesh	7.06	6.15	5.56	–12.89	–21.2
West Bengal	4.27	2.49	2.24	–41.69	–47.5

Source: Calculated from Reserve Bank of India, *Report on Currency and Finance 1995–96* Statement 178 on plan outlay of state governments, and *Economic Survey 1995–96* on state domestic product. See Sen and Patnaik (1997) for an analysis.

Table 13: Summary of foodgrains output and availability in India in the 1990s (three-year annual average except where indicated)

Three-year period ending in	Average population (million)	Net output per head (in kilograms)		Net availability per head (in kilograms)		
		Cereals	Foodgrains	Cereals	Pulses	Foodgrains
1991–1992	850.70	163.43	177.65	162.8	14.2	177.0
1994–1995	901.02	166.74	180.28	160.8	13.5	174.3
1997–1998	953.07	162.98	175.57	161.6	12.6	174.2
2000–2001	1,008.14	164.84	176.34	151.7	11.5	163.2
Individual year						
2000–2001	1,027.03	157.79	167.43	141.42	9.64	151.06
2001–2002	1,046.44	165.40	177.01	146.76	11.61	158.37
2002–2003*	1,066.22	140.82	150.50	140.82	9.68	150.50

Source: Government of India, *Economic Survey* for years 1999–2000, 2000-2001, 2002–2003 for total net output of cereals and pulses, and total net availability of cereals and pulses, up to 1999–2000. Population figures for inter-censal years derived by applying the growth rate of 1.89 per cent per annum yielded by the census population totals for 1991 and 2001,which are also available in the quoted publication.

* Indicates provisional estimate. Availability is provisionally assumed to be the same as net output in 2002–2003 pending the release of final estimates of procurement, sales and net exports by the Ministry of Agriculture. For a detailed discussion of food grains output and availability in the 1990s, see U. Patnaik (2003b).

Table 14: Poverty estimates, 1978–1998 (percentage of poor in total population, headcount)

NSS Round	Period	Rural headcount poverty			Urban headcount poverty
32	July 1977–June 1978	50.60			40.50
38	Jan. 19 83–Dec. 1983	45.31			35.65
42	July 1986–June 1987	38.81			34.29
43	July 1987–June 1988	39.60			35.65
44	July 1988–June 1989	39.06			36.60
45	July 1989–June 1990	34.30			33.40
46	July 1990–June 1991	36.43			32.76
47	July 1991–Dec. 1991	37.42			33.23
48	Jan. 1992–Dec. 1992	43.47			33.73
50*	July 1993–June 1994	38.74			30.03
43**	July 1987–June 1988	39.23			36.20
50**	July 1993–June 1994	36.66			30.51
		Gupta	*Datt*	*T-S*	*Datt*
51	July 1994–June 1995	38.0	41.0	43.6	33.5
52	July 1995–June 1996	38.3	37.2	40.1	28.0
53	Jan.–Dec. 1997	38.5	35.8	38.3	30.0
54	Jan. 1998– June 1998	45.3	NA	44.9	NA

Source: Ozler et al. (1996) for all estimates up to the 48th round.

Note: The 55th round, 1999–2000, has changed the reference period and is not comparable with the earlier rounds, so its results are not presented here. The poverty percentage using the flawed 55th round data shows a near-halving compared to the 1998 estimate, which is clearly not possible in reality.

* For the 1993–1994 estimate, exactly the same method as rest of series applied to the 50th round NSS data by Sen (1996).

** In World Bank (1997), this same series is reproduced with one change for the 1987–1988 round, and an estimate for 1993–1994.

The three estimates for rounds 51 to 54, are summarized in Sen (2000) and are reproduced here from that article. T-S refers to Tendulkar and Sundaram.

The per capita foodgrains output for human consumption fell by four kilograms per head between 1990 and 1999. Per capita availability, however, declined by an unprecedented 14 kilograms per head over the same decade, owing to the massive build-up of stocks, which reflected the deflation in mass purchasing power. (Availability is defined as the net output plus net imports minus addition to stocks.)

Some economists argued in the mid-1990s that it was too early to say anything about the net employment effects of the cropping pattern shifts in India, but with the latest employment data showing a collapse of rural employment, it is clear enough that the impact has been negative. The risk factor for farmers has increased greatly with the new export orientation since international prices are notoriously volatile. With a short-term global price rise, unsustainable credit-financed expansion of a cash crop often takes place—aided and abetted by export agents—leading to a glut and price fall aggravated by the subsequent global price decline. As argued earlier, the prolonged global price decline since 1996 for all primary commodities is not a temporary matter but reflects the long-term effects of the generalization of global deflationary trends.

The story of cotton and crisis encapsulates the problems with unregulated primary export thrust and is worth retelling. The fastest-growing individual crop that displaced foodgrains was raw cotton, which had seen a violent export thrust from 1990 onward. Exports surged more than 10-fold to 374,000 tonnes in 1990–1991 from an annual average of 34,000 tonnes during the preceding four years, and, while fluctuating, maintained a high average of over 200,000 tonnes in the succeeding three years. Owing to the sudden jump in exports, there was a domestic raw cotton famine, the open market yarn price trebled, and many thousands of handloom and powerloom weavers were badly hit. Indian cotton yarn, using the domestic raw material, remained internationally competitive, and the quantum index of yarn exports grew six-fold between 1990 and 1998.

The combination of raw cotton and cotton yarn exports led to the decline of both the handloom and the small-scale powerloom industry, as large numbers of handloom weavers took cuts in consumption, while hundreds of powerloom enterprises closed down. Despite this, the commerce ministry gave the go-ahead to more exports in early 1997, resulting in the closure of an even larger number of powerloom enterprises. The problem was further compounded in the state of Andhra Pradesh, whose government had entered into a state-level structural adjustment programme directly under the advice of the World Bank. As part of the programme, the power tariff has been raised successively five times in order to reach "market rates" for power, which has driven textile producers to the wall. In the handloom centre of Sircilla in Andhra Pradesh, dozens of weavers, unable to feed their families any longer, have been committing suicide. Most suicides are males, but in a few cases entire families facing starvation have killed themselves. These cases are too recent to have been studied by academics, although investigative journalists' reports are available.[20] Other indicators of distress highlighted by NGOs working in the area are a sharp increase in distress sales of children to adoptive agencies, especially from the tribal communities, and increased incidence of prostitution by women as normal sources of incomes dry up.

Higher domestic raw material prices owing to unregulated exports thus reduced the competitiveness of the textile industry, and exports of the raw material, cheap by world standards, pleased India's textile competitors. Not only raw cotton and cotton yarn, but wheat and rice too were exported, the last two out of the public stocks meant for domestic use, as these stocks piled up steadily owing to falling internal sales, and as more people subjected to income-deflating policies, went hungry.

If it is ruining textile weavers, has the raw cotton export boom at least benefited the farmers growing the crop? The spate of suicides during the last four years by hopelessly indebted cotton farmers in Andhra Pradesh, northern Karnataka and even in hitherto prosperous Punjab, provides the answer. Over 1,000 farmers swamped by mounting debt, have committed suicide—usually by ingesting pesticides—and in Andhra Pradesh alone the official estimates put the number at 609 by the end of 2001, but the actual figure is much higher. Table 15 details the statistics for Andhra Pradesh from 1998 to 2002. Several districts in Andhra Pradesh were

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[20] Reported in *Frontline,* 27 April 2001.

drought-stricken in 2002. During that year, the following were the police records of farmer suicides in the three worst-affected districts: 1,220 in Karimnagar, 903 in Warangal and 457 in Nizamabad; the total for these three districts was 2,580, which is over four times the total number of suicides for all districts summed over the preceding four years (table 15).[21] Suicides also continued in the remaining districts during 2002 but so far the exact numbers are not available. A drought that follows five years of falling prices and employment, has a very different impact from a drought in normal times.

The risk of producing a commercial crop is borne entirely by the grower, and this risk is greatly increased when the cash crop is grown on contract for export, according to the seed and fertiliser-pesticide regime prescribed by the purchaser. The majority of cotton farmers are small farmers, and most take land partly or wholly on lease. The Indian farmer is highly price-responsive and has been since colonial times. As the world cotton price improved in the early 1990s and unregulated exports were permitted, thousands of farmers from the states of Andhra Pradesh, Karnataka and Maharashtra rapidly expanded the area sown to cotton, hoping to improve their economic position. To do this, they took large cash advances from traders and commission agents, and loans from banks to meet the extra seed and input costs. The contraction of institutional, lower-cost credit owing to the new policies meant greater reliance on higher-cost private credit on the part of these farmers. Dealers in both uncertified seed and sub-standard pesticides profited under such boom conditions of rapid area expansion with no state supervision, as everything was left to the allegedly "efficient" market.

The cotton crop is susceptible to a large variety of pests and the unholy trinity of commission agent/moneylender, fly-by-night pesticide dealers and seed-suppliers all had a role to play in the debacle, as farmers purchased uncertified seed, spent large sums of borrowed money applying sub-standard pesticides repeatedly to their pest-affected crop on the advice of the pesticide dealers, but often could not save an iota of it. Had they instead grown their traditional drought- and pest-resistant local *jowar* (sorghum) and *ragi* (finger millet), they would have had something to eat. By relying on cotton, they neither had anything to eat nor any prospect of clearing the large, unviable debts already incurred, because cotton prices worldwide started declining from 1995 and are now are at less than half the previous level (see table 6). Hundreds of hopelessly indebted farmers have been driven to the extreme step of ending their lives, leaving their families to face a harsh neoliberal world.

A small sample survey of 30 families of suicides in two *mandalas* or administrative divisions found that 73.4 per cent of the cases reported debt and another 16.7 per cent reported family tensions (which usually arose owing to the crisis of livelihoods) as the cause of suicide. In only one case was the suicide a woman who ran her own farm, while the remaining 29 were men. The survey also found that a large number of farmers had switched from food crops and were growing cotton for the first time, and applied inputs mainly on the advice of pesticide suppliers.

21 *The Hindu*, Hyderabad edition, 6 January 2003.

Table 15: Suicides of farmers in Andhra Pradesh (by district)

District	1998	1999	2000	2001	2002	Total
Warangal	77	7	7	28	903	1,022
Ananthapoor	1	1	50	50	10	112
Mahaboobnagar	14	2	25	10	—	51
Karimnagar	31	10	6	30	1,220	1,297
Guntur	32	10	1	6	—	49
Khammam	20	5	3	6	2	36
Medak	15	3	2	8	—	28
Adilabad	9	8	5	13	—	35
Nalgonda	5	1	10	11	8	35
Nizamabad	9	1	—	11	457	478
Rangareddy	5	—	3	6	—	14
Kurnool	4	4	2	4	—	14
Chittoor	3	—	—	2	—	5
Krishna	4	1	1	3	1	10
Prakasham	1	3	—	2	—	6
West Godavari	1	—	—	5	—	6
East Godavari	—	—	1	2	—	3
Sreekakulam	—	1	—	-	—	1
Cuddapah	—	—	—	4	—	4
Visakapatnam	—	—	—	1	—	1
Unknown	2	1	—	—	—	3
Total	233	58	116	202	2,601	3,210

Source: table giving the numbers of suicides up to 29 January 2002 was supplied by Kisan Sabha (Peasant Union) at a symposium on farmer suicides held in Hyderabad (Andhra Pradesh) on 3 February 2002 and attended by the author. The table has been partially updated by the author by incorporating information for the entire year 2002, so far available for the three districts only, mentioned below. For the other districts, the figures given in the last column refer to a single month, January 2002.

Note: During the year 2002, the number of suicides in Karimnagar, Warangal and Nizamabad totalled 2,580 (see text).

Suicides are those who have taken the extreme step out of despair: for every suicide there are thousands of farmers enmeshed in escalating debt owing to a shift from hardy local food grains to a fickle export crop. Other farmers have been selling vital organs: a kidney fetched Rs. 40,000 ($1,000) in 1998, but the price has declined as agrarian distress intensifies. After the illegal operation, for which farmers are taken by touts working for the large private super-speciality hospitals, they are unable to do a full day's work. Women, who until then had not needed to work for wages, reported seeking wage-paid work, any work at all including stone-breaking which involves hard physical labour, to make ends meet. Such a crisis of mounting indebtedness and despair is unprecedented in independent India, and it is the direct result of trade liberalization, exposure to global volatility and the resulting price crashes. The state government took a cynical decision in 2000, to stop paying any ex gratia to families of farmers committing suicide as it had initially done, on the ground that it "encouraged" suicide. This was belied by the fact that the maximum number of suicides in recent years took place after this decision.

The plight of cotton growers has been quickly exploited by transnational corporations (TNCs) like Monsanto, which has carried out trials of its genetically modified BT Cotton in India and is attempting to carve out a market for it by claiming that farmers who plant the expensive seed exclusively supplied by the company will never suffer loss of the crop owing to pest attacks. The claim has been belied already by crop losses experienced by farmers planting BT Cotton.

The social irrationality of mounting grain stocks and increasing hunger

At the time of writing, more than 63 million tonnes of foodgrains are lying in the government storehouses and covered by tarpaulins in the open, while unemployment and hunger increase, and starvation deaths are taking place among tribal populations in particular. The stocks in excess of buffer norms are at least 40 million tonnes, and the Food Corporation of India (FCI) is now refusing to buy from farmers because it has no storage capacity, which leads to unprecedentedly low farm-gate prices. Paralyzed by the neoliberal dogma that raising state expenditure is a sin, and bowing to IMF warnings that the fiscal deficit must be cut, the central government refuses to intervene to launch a massive food-for-work programme, as thinking people of nearly every political persuasion within the country are demanding. This outcome in India today drives home, in a way that nothing else can, the irrationality and sheer immorality of the agenda of globalization.

After the minority Congress government assumed power in mid-1991, it raised the issue price of foodgrains from the fair price shops to more than the procurement price paid to farmers in order to cut the food subsidy (mandatory under loan-conditional reforms). It kept raising issue prices steeply until 1994, when wheat and rice prices were 85 per cent higher compared to 1990. These steep price increases, however, boomeranged on the government because, unable to buy from the ration shops (particularly given the employment and income growth deceleration taking place at the same time), a large segment of consumers were priced out and moved into poverty while for the already poor the depth of poverty increased. The number of people in poverty rose by at least 30 million. Sales dropped by 9 million tonnes between 1990 and 1995, and stocks grew further, because procurement remained good. The cost of holding larger and larger stocks of grain meant that the subsidy was not reduced, but instead of benefiting the consumer it now went mainly to the FCI to cover the increased cost of stock-holding: from nearly 90 per cent, the consumer subsidy was down to 60 per cent of the total. Since the global wheat price was high at the time, stocks were brought down eventually by exporting wheat.

This story has been repeated with an even greater dose of irrationality by the right-wing coalition led by the Bharitya Janta Party (BJP) which, cobbled together in 1998, precariously won the elections of 1999. It doubled issue prices of foodgrains in order to cut food subsidy, and once again sales dropped. In the meantime, a continuation of a record run of good monsoons and procurement from farmers led to a continuous build-up of stocks. During the 1990s, the foodgrains growth rate halved (table 5) and per head foodgrains output fell (table 13): both continued to fall between 2001 to 2003. The problem is thus not over- production, but deficient demand. Hardly 10 million tonnes were sold from the ration shops in 2001 compared to 18.3 million tonnes in 1998 (Swaminathan 2002). The mountains of unsold food grains today stand testimony to the extent of cut in mass purchasing power brought about by the deflationary macroeconomic policies described earlier. In addition, the transition from a universal access system to targeting from 1997 onward has worsened the situation considerably, because large numbers of those actually in poverty are not identified as such and are not issued the ration cards that would enable them to access cheaper grain. Consequently the per capita food availability has declined to only 159 kilograms in the triennium centred on 2000 (see table 13), which is incidentally the same level that had prevailed 70 years earlier, in the hungry 1930s. Obviously, since the well-to-do have maintained their consumption, the decline must be even greater for the bottom deciles ranked by income. Even before the drought of 2002–2003, availability had fallen to a record low of 150 kilograms per head by the year 2000–2001 and starvation deaths were being reported especially in tribal areas. Despite this, during the just-ended severe drought year which saw intensified rural distress, the government exported 12.4 million tonnes of foodgrains out of stocks, the largest exports ever since Independence, only by subsidizing heavily as the global price has crashed.

The BWIs have always pressed for *targeting the food subsidy* in every indebted country implementing neoliberal economic reforms under their guidance, on the argument that government resources are limited, and it is necessary to deliver subsidy to those who needed it most, namely the really poor. Many countries have implemented targeting, and India started doing so in early 1997. Most countries have experienced a food price rise and a worsening of poverty after the targeted public distribution system was introduced, compared to the earlier universal access to PDS.

In the abstract it is difficult to oppose targeting because it sounds reasonable that subsidies should be concentrated on the poor. Why, then, have the targeted schemes usually misfired? The reason, we believe, is bad faith: international lending institutions arguing for targeting, and their domestic adherents, are theoretically committed to the free market, to the idea of no state intervention at all in the food economy and to winding up the existing PDS completely sooner or later. What they therefore want initially, is a change in the earlier universal access system, because change is the first step, the thin end of the wedge, with which the state's role in the food economy can be levered out entirely within a few years. This has happened already in a number of countries like Sri Lanka and the Philippines, whose functioning systems of grain procurement and distribution have been destroyed.

To obtain popular consent to the initial change to targeting, the progressive-sounding argument is put forward that subsidy must be concentrated with the poor. Once the principle of change is accepted, however, the change affects more than just the beneficiary group: the consumer subsidy itself is drastically cut, reducing the entitlement of the poor compared to what it was under the earlier universal system. In 1997 in India, in the name of better targeting, an absurd principle of calculating grain requirements for the PDS was introduced, by taking the average of the past 10 years of actual sales of grains from the fair-price shops. A decade ago there were 160 million fewer people requiring ration grains. The actual off-take during five years out of the 10 (1991–1996) had been reduced by excessively raising the grain price and pricing out the poor from the ration shops, while a strongly contractionary fiscal policy stance was being implemented, and the crude death rate as well as the infant mortality rate actually rose in a number of regions in 1992. The only possible objective of the dishonest principle of taking the past 10 years' abnormally low average off-take was evidently to reduce the food subsidy further. Under the new scheme, the grain allocation in 1997 from the central pool to the PDS of Orissa, the poorest state in India, was reduced in the case of rice from over 100,000 tonnes to 34,000 tonnes—hardly a third of that level—and in the case of wheat, it was reduced from 50,000 tonnes to zero!

The BWIs and the Indian finance ministry (which employs many former BWI officials) complain about the "large" and "unsustainable" food subsidy. Yet the total central food subsidy for a country and population the size of India, is minute—hardly Rs. 80,000 million annually (about $1,600 million) or 0.6 per cent of the nation's income, which is being transferred to at least a hundred million of the poor. The size of India's food subsidy can be evaluated against the fact that over seven times as much—38 per cent of the entire revenue expenditures in India or over 4 per cent of GDP—is given as interest payments every year to the tiny minority of the well-to-do in the country, from whom the government has preferred to raise money in the past in the politically easy form of borrowed funds, rather than as taxes.[22]

Public interest litigation on behalf of the starving poor led the Supreme Court, in November 2001, to direct the government to use the excess food stocks (excess over buffer norms) of 40 million tonnes to alleviate hunger. The government set up a Committee on Long-Term Grain Policy, chaired by A. Sen, which submitted its report in August 2002. The report has made two excellent recommendations—large-scale food-for-work programmes to raise purchasing power, and going back to a universal PDS, given the experience of widespread wrong exclusion with targeting.[23] Neither has been acted upon. For a long-term restoration of badly eroded purchasing power, it is indeed essential to follow boldly expansionary policies, which the existing excess food stocks would permit without any inflationary pressures. As has been repeatedly and correctly argued by a number of economists in India, a large-scale investment- and employment-generating effort in rural areas in the form of food-for-work (of which irrigation, soil conservation and afforestation are the most important) is required, directed toward building up productive assets which will enhance growth.

Further, very concrete proposals for countering industrial recession have been formulated—keeping in view rising unemployment and excess capacity combined with excess liquidity in the banking system—and, if implemented, could raise at least Rs. 160,000 million annually through bond issues to finance a programme of infrastructure development (railways, roads, irrigation and power; see Shetty 2001). It will be obvious that these proposals are in substance similar to the proposal for credit-financed public works in Britain and Germany during 1929–

[22] In the 1997 budget, lower income tax rates gifted away more than twice as much as the food subsidy bill, or an estimated Rs. 120,000 million ($3,000 million) in a blatantly class-biased measure, to the income-tax payers in the country who number only 12 million, the top 1.2 per cent of the population. There are only eight other countries out of the 80 reporting countries in the world that, in 1996, taxed less than India, which ranked ninth from the bottom with a central tax to GDP ratio of only 10.3 per cent (World Bank 1999. Data on central tax/GDP but not total tax/GDP across countries are available in this annual publication of the World Bank). By 2001 the tax/GDP ratio in India fell to 8.5 per cent and the total tax/GDP ratio also declined. If the present course of belligerent armament continues unchecked, the already low funding for the social sectors and for poverty alleviation will be further reduced.

[23] When a criterion is used to identify a particular group in a population (in this case those who are designated as "poor"), the problem can arise of wrong exclusion, which statisticians term Type 11 error as compared to the problem of wrong inclusion or Type 1 error.

1930, except that the huge food stocks and deepening agrarian distress in India make these proposals even more urgent as well as more feasible in terms of implementation.

The die-hard deflationists of neoliberal persuasion have reacted by warning the government against any increase in expenditures for public works in villages, or indeed for any purpose at all. According to them, increase in expenditure would "crowd out" private investment and increase the fiscal deficit (recalling exactly similar deflationism in Britain, Germany and the capitalist world in 1929–1931). The theoretical fallacies in their arguments with respect to a number of ill-conceived measures, including divestment of public sector undertakings, has been discussed in detail in P. Patnaik (2000) who concludes that: "To argue against the mitigation to human suffering that an increased fiscal deficit can provide is therefore bad theory, the sheer 'humbug of finance'".

The cash component of a bold programme of employment generation and asset creation using food stocks would in fact pose no problems, as initially it would result in matching reduction in the costs of holding the stocks, and subsequently savings would be generated from rising incomes as employment rises though the multiplier effects of expenditures. If such a programme could have been carried out after the 1987 drought, there is no reason why a much larger programme cannot be carried out now, given the more massive wage-goods stocks available.

It is socially irrational, and politically dangerous, to let grain rot while employment falls and more people go hungry. No amount of apologetics by way of academic arguments that Indians do not need as much food as others do, or that nothing is wrong on the nutrition front because the poor are "diversifying" their diets away from cereals to animal products, is going to remove the fact that per capita *total* calorie intake has been falling in rural areas everywhere, except in two states (Kerala and West Bengal).

It is indeed incredible that some academic and official reports can talk of dietary diversification in a positive light and interpret it as an example of "Engel's law"[24] when the same data source they use (namely, the National Sample Survey, or NSS, consumption expenditure surveys), which shows this "diversification" also shows that it is associated with a *decline in per capita total calorie intake*—a fact which they take care not to mention at all. What has been happening is that while calories from animal products have been rising, calories from cereals have fallen much more, leading to an overall fall in total calorie intake from already low average levels. Obviously, the *share* of calories from animal products registers a rise, but this fact has a completely different significance when total calorie intake is declining, compared to the converse situation. The only two states in India that have prevented a decline in per capita total calorie intake in both urban and in rural areas, and registered a rise in average nutrition, are

[24] Ernst Engel, a nineteenth century German statistician, observed that when a family's income increases, the proportion of money it spends on food decreases.

precisely those that have ensured rising consumption per head of the basic cereal food staples, namely Kerala and West Bengal.[25]

The government has so far, under pressure from the courts, taken only small and hesitant steps with respect to food-for-work, which will have little impact on the problem, especially given the barriers erected by the endless partitioning of the beneficiary population under many petty schemes. It seems to be completely paralyzed as regards any bold measures because its thinking appears to be locked in the iron vice of deflationary dogma based on the incorrect concept of a fixed savings pool.

Visiting BWI economists propagate and repeatedly reinforce this neoliberal dogma through their advice, ignoring all thought of mass welfare, and acting solely in the narrow interest of finance capital. In a meeting with India's finance minister on 20 December 2001, the first deputy managing director of the International Monetary Fund, Anne Krueger, is reported to have warned that "India will have to address its deficit for fiscal sustainability because deficit financing is going to crowd out private investments".[26] One can hardly ask for a clearer restatement of the fallacious, 70-year-old British Treasury view that increasing public expenditure will reduce private investment. In the face of rising unemployment, mountainous food stocks and increasing hunger, the representatives of finance capital argue for cuts in expenditure. Feasible and obvious measures for reducing unemployment and lifting the economy out of deepening recession are thereby prevented, much as the implementation of the fallacious Treasury view had prevented counter-depression measures in time. Moreover, it is one thing to propagate logically wrong arguments in 1929–1930, when there was much genuine confusion; it is a different matter altogether to put forward these same arguments today, when the theory exposing the fallacy of deflationism has been in every economics textbook for at least 50 years. It will be a tragedy a second time, and not a farce, if all the bitter lessons of past history and present developments are ignored, and the events of 1931 are re-enacted.[27]

5. Stabilizing Livelihoods: Both Macroeconomic Policy Change and Decentralized Community Initiatives Are Required

The story of economic reforms in India described so far can be replicated with variations for a large number of developing countries that have seen the adverse effects of deflationary policies, unregulated trade, social subsidy cuts and privatization of state-owned enterprises. The question arises, are there ways in which people can counter the attack on their livelihoods inherent in globalization? What are the policy measures that would be conducive to a stabilization of rural livelihoods, in particular, when producers are exposed without protection to the volatility of global prices?

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[25] See Swaminathan (2000).
[26] Reported in *The Hindu*, 21 December 2001, p.16.
[27] 1931 was a significant year during the five-year depression because even though the trend was clear, finance ministers followed further deflationary measures and made things even worse.

These are big questions, and we believe they have to be answered both at the level of the macroeconomy, as well as at the level of the people's co-operative organization and community action for protecting and improving their livelihoods. The importance of overall macroeconomic policies arises from the fact that the forces continuing to push for deflationary globalization are too centralized, and too ruthlessly pursued by powerful international organizations acting concertedly, to be tackled at a decentralized rural level alone. It is only state action through public expenditures that can immediately revive mass demand on a large scale. Therefore, it is imperative for the individuals and organizations concerned with people's welfare to mount pressure on the nation-state to undertake boldly expansionary policies to generate employment and incomes, and to finance such expansion mainly through taxation of those who can afford to pay, rather than through internal borrowing, which raises the future interest burden on the people. But in the face of unemployed resources and contracting effective demand, even credit-financed expenditure is infinitely preferable to inaction.

Both the need to raise the tax/GDP ratio and the need to launch a comprehensive food-for-work programme linked to creating rural assets are measures that the thinking public of every political persuasion agrees upon in India today, whereas there were few advocacates of these policies in the early years of neoliberal hegemony. Now, however, realism has set in, and the people can see the socially irrational outcomes of following these policies.

It is naive to imagine that all attempts to alter the policies followed by nation-states are completely hopeless, however much such states might appear to be subordinated to the agenda of international finance capital today. Public opinion and pressure expressed through the media and all the various forums open to civil society do make a difference to governments, which, under democratic systems, exist ultimately because of the people's mandate. Conversely, we see governments in developing countries politically committed to implementing the deflationary policies advised by the BWIs, which attempt to curtail the parliamentary system, centralize political power and curb civil freedoms, because in the long run these are incompatible with the deflationary policies that harm the people.

The longer term problems of rural livelihoods, which existed before the inception of the neoliberal agenda and which have got acutely aggravated with its implementation, relate to land distribution and to the control of land, water and credit resources. There is a systematic attempt in developing countries to allow TNCs and large local agro-businesses access to agricultural and tribal land by altering the laws which until now hindered such access. In India, for example, there is an attempt to raise maximum limits or "ceilings" on landholdings and do away with bans on non-farmers acquiring land under the pressure of agro-business corporations in a number of states. In Karnataka and Maharashtra, the laws have already been rolled back. The retention of such laws becomes a site of struggle for the people. The implementation of existing laws relating to security of tenure and redistribution of land, wherever they exist, is very important and can make a great deal of difference even in situations where radical redistributive peasant-dominated land reforms on the model of post-War Japan, Korea or China may no longer be politically feasible. There have been substantial cuts in low-interest bank credit to rural areas under financial sector reforms, which raises the problem of supply of credit. The paper will now discuss the experience of tenancy reform, the revival of the *panchayat* system, women's land rights and credit supply in West Bengal, India, as a case study of the possibilities of positive developments even in the era of globalization.

Elements of stabilization of rural livelihoods: West Bengal

In West Bengal in June 2002, the Left Front government was voted back into power for a sixth term with an absolute majority and overwhelming support in the villages, in spite of a determined united assault by all opposition parties. The coalition has been in power since 1977 and will rule until at least 2006.The government was re-elected because of a dramatic change in state politics: from experiencing a state-made famine, which killed over 3 million people at the time of the Second World War (the great Bengal famine) and rendered millions destitute, West Bengal achieved the highest rate of agricultural growth in general, and foodgrains growth in particular, in the whole of India during the 1980s and 1990s, and the second highest rate of reduction in rural poverty. While in every state in India per capita cereal intake as well as per capita total calorie intake in rural areas has fallen, according to NSS data on consumption, in two states only—West Bengal and Kerala—it rose noticeably between 1977 and 1993.

Independent academic analysis of the success of the Left Front government in West Bengal, focuses on the important institutional changes brought about by two complementary sets of policies: Operation Barga, which started in 1978, and the revival of the *panchayat* (decentralized local government) system in the 1980s. *Barga* means share, and the *bargadar* was a small tenant on an oral lease with no security of tenure. Such tenancy accounted for a large proportion (a third to two-fifths) of the area under cultivation: the landowner-rentier had no incentive to invest because he received a high income anyway—amounting to 50–60 per cent of the crop—without doing anything at all, while the *bargadar* was squeezed dry and had nothing left to invest.

The importance of Operation Barga lay precisely in the fact that it gave owner-like security to the mass of poor tenants by recording them and making eviction difficult, and fixed fair limits to the share of crop payable as rent. There was no distribution of ownership to the tenant, and the title remained with the landowner, who could freely transfer the land. But after being recorded, the tenant acquired a legal existence and no longer faced the threat of arbitrary eviction; she or he could only be evicted if there was due cause (for example, non-payment of rent).

At the same time, implementation of fair rents (varying according to extent to which the landowner shared costs) meant that some income remained with the tenant to be used for shifting to a higher-value cropping pattern and for tube-well investment, helped by spread of institutional credit. Research in the early 1990s showed that in some 80 per cent of leases in the sampled villages, the legal rental share was actually paid, and in the remainder it was somewhat higher than the legal share, but considerably short of the half-share or more which was prevalent earlier. Without the effective revival of the institutions of local government through regular elections to *panchayats*, it would have been impossible to enforce legal shares in the villages.

The results with regard to production have been quite outstanding. From a situation of near stagnation in the 1960s and up to the mid-1970s, West Bengal in the last 20 years has seen a steady spread of HYV (High Yielding Varieties) fertilizer use, aided by shallow tube-well investment over the rice areas cultivated by newly recorded and empowered tenants. Additionally, large numbers of the formerly landless and land-poor have obtained redistributed ceiling-surplus land. Banks were directed to give priority to rural loans, and the rapid extension of institutional credit has financed input loans to poorer cultivators taking land on seasonal lease, enabling them to employ the new technology. Recent analysis of the output data show that for 18 years, starting in 1977–1978 and ending in 1995–1996, the growth of yields per acre of all crops was maintained at an annual compound rate of 5 per cent, higher than anywhere else in India. The yield per acre growth for foodgrains was even higher, at 5.7 per cent annually, and therefore despite some fall in area, the foodgrains output has been growing at 4.6 per cent annually, more than double the population growth rate, in sharp contrast to other states where it has been falling. This is not accidental: when small producers are free to make production and cropping-pattern decisions, food security will be preserved to a greater extent than where large commercial farmers dominate. Moreover, the output of non-foodgrains has not suffered, and has grown at 4.7 per cent annually. Analysts cite Operation Barga as a major reason, combined with the spread of institutional credit and the dynamic role of the revived, democratized *panchayat* system in unleashing the latent production potential of the rural economy.[28]

There are case studies in West Bengal of landless persons who, after acquiring small pieces of redistributed ceiling-surplus land, decided to pool their efforts and co-operatively use their land to grow vegetable and fruit crops for the local urban markets. Their success in raising and stabilizing their incomes meant that they did not have to rely on daily work for wages. Others engaged successfully in co-operative aquaculture. An environment of encouragement from the democratized local bodies and easy access to credit helped this process. On the other hand, in Gujarat in 1991, a similarly successful co-operative effort by hitherto landless labourers to whom ceiling-surplus land was distributed, and who grew profitable papaya for local urban markets so they could be free from daily wage labour, failed. It invited the wrath of their former employers—high-caste Rajput landlords—who, faced with labour shortage, razed the orchards and physically attacked the erstwhile labourers while the local administration did nothing. Thus the question of an enabling environment and defence mechanisms provided by democratized local bodies becomes crucial for the preservation of the gains of self-help efforts on the part of the disadvantaged.

A problem with Bengal's Operation Barga, as well as with distribution of ceiling-surplus land in the past, was that the dimension of gender equality was not explicitly addressed. Registration of titles to redistributed land was done "automatically" in the name of the male of the family and an exception was made only if there was no adult male in the household, which would then be female-headed. After representations by women's organizations on the gender discrimination involved in this, the decision was taken to issue land registration (*patta*) jointly in the name of both wife and husband, but this is applicable to new registrations (Gupta 2001). About 400,000

[28] See Sanyal et al. (1998).

joint *pattas* have been registered to date. The principle of natural justice demands that women should enjoy the same legal rights as men, but it is not enough to amend the legal provisions alone to permit joint *pattas* or registration in the name of female heirs by bringing agricultural property in line with the provisions relating to urban property. The persistence of social attitudes determined by the centuries-old habits of gender discrimination in a patriarchal society imply that an extra effort by women's organizations and bodies of local administration to raise the level of informed consciousness regarding women's rights. There are many other areas where the performance of the state can be bettered, especially with regard to rural health care and education, where it is far behind Kerala.

Concluding Remarks

A new awareness has emerged over the years that sees the way forward in the co-operative effort of households and communities to conserve resources, improve productivity, empower women and educate children. The unregulated capitalist exploitation of bio-resources by big landlords, rich farmers and town contractors has produced a crisis for the rest of the villagers by way of deforestation, lack of firewood, falling sub-soil water tables and acute scarcity of drinkable water. (In India these features are most evident in states like Rajasthan, Gujarat, Maharashtra and Andhra Pradesh where a large number of districts are now classified as "drought-prone".) On this has been superimposed the additional factors of falling non-farm work as governments wind up employment-generating programmes, and these income-deflating policies combined with export thrust lead to a progressive exclusion of the poor from access to basic foodgrains described earlier as the direct and indirect result of neoliberal reforms.

Albeit in an inchoate and unsystematic way, people affected by such crises are adopting, through their own experience, much the same model of co-operative effort which over 40 years ago allowed poverty-stricken villagers in China to lift themselves out of the slough, invest jointly in water and land conservation, build up basic health care and primary education facilities, and begin to address gender inequalities. In India by now there are a fair number of highly successful village-level examples of joint community effort to invest, especially in drought proofing and integrated watershed management, afforestation, aquaculture and diversifying activities within a voluntary co-operative framework, thereby preserving livelihoods and giving enough income and manoeuvrability to hitherto poor households, so they can remain in villages rather than migrate seasonally to cities, and can send their children to school rather than to work. This, we believe, is also the way forward in most developing countries. It is not easy in places where local government institutions have not been democratized and where state support is lacking; it often encounters resistance because better incomes and empowerment of the disadvantaged may be seen as a real threat to their domination by local landed employers. Where there is at least a minimal level of state support and activism against deflationary globalization, however, it can be generalized to a relatively successful stabilization of livelihoods.

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