GLOBALISED WORLD
Who gains, who loses?

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GLOBALISED WORLD
Who gains, who loses?

By Aseem Shrivastava

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India globalised, Bharat cauterised

"Globalisation is really the best way to lift millions of people out of poverty because it increases trade; it increases job creation. It's a positive force."

— Nandan Nilekani, CEO Infosys in an interview with the San Francisco Chronicle*, July 4, 2004*

"Globalisation creates growth by destruction of the environment and of local livelihoods. It therefore creates poverty instead of removing it. The new globalisation policies have accelerated and expanded environmental destruction and displaced millions of people from their homes and their sustenance base."

— Vandana Shiva, scientist and environmental expert in Resurgence*, June 1997*

It has become a cliché to say that there are two countries, India and Bharat. And yet, it is a truth whose full significance is being experienced and digested only as the multifarious processes of a globalised capitalist economy unfold in the two countries. The two countries breathe differently, inhaling quite distinct vapours, living off markedly different diets, wearing clothes of different materials,

moving in different modes of transport which are each heading for different destinations, and so on. The cleavage between the two continues to grow with each passing year of rapid growth.

And yet the two countries are joined at the hip, like Siamese twins, one overfed ("mall-nourished"?) in virtually the same degree to which the other is malnourished. The overfed one cannot last a day without the labours of the malnourished one. In turn, the malnourished one waits each day in anguish to feed off the crumbs spared by the overfed one. And the twins are placed together with breathing masks in an incubator called 'globalisation', which in turn needs the twins in different ways to maintain its own temperature. In fact, as we will see, it needs many such twins elsewhere on the planet, incubated in similar fashion.

This is how our predicament can be summed up today.

For over four decades, India followed a set of policies inspired by the Soviet economic model. The Soviet Union, just so memory does not deceive us, recorded historically unprecedented rates of economic growth during the 1930s and 1940s, using a model of socialist planning. Nehru and his planners took inspiration from this success to design a policy framework suited to a democratic, multicultural society like India. Massive public investments were

made in heavy industry, energy, transport, irrigation and other infrastructure to set the ball rolling for economic growth and development to happen.

After four decades there were notable successes — most crucially the fact that the country became self-sufficient in foodgrain by the early-1980s and created the foundations for industrial growth. However, the *neta-babu* class held the reins of economic growth through the licence-permit raj. There was frustration for Indian businesses, made vocal by the time Rajiv Gandhi became prime minister in 1984, promising to "take India into the 21st century".

In the summer of 1991 India suffered a severe crisis in its external accounts, having only enough foreign exchange to pay for a few weeks of critical imports. The policymaking elite took the opportunity to change course radically, accepted a big loan from the International Monetary Fund (IMF) in Washington, threw out both the good and (only some of) the bad features of the erstwhile policy framework, and launched a whole new set of measures across the board to guide the destiny of the Indian economy into uncharted waters. International trade was liberalised, many industries and services were privatised, fiscal and monetary policies were made

more deflationary and restrictive, in line with the IMF prescription of a 'free-market economy' left to its own devices by a non-interfering government. This has been the biggest shift of policy in India since Independence in 1947.

If the Indian policymaking elite felt after 1991 that the best chance of lifting millions out of poverty was to hitch the Indian economy hook, line and sinker to the ship of global capitalism, it becomes crucial for us to examine whether the goals of global capitalism (which includes Indian big business) are compatible with the objective of ending poverty, malnourishment and hunger, and of ushering in economic development.

If we are to make any sense of the increasingly chaotic world around us, it is important to understand who and what globalisation was meant for. It is vital to note, in particular, that regardless of official rhetoric, it was not conceived for the poor of the world. In actual fact, it was launched in order to consolidate and expand the global capitalist system.

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(An)globalisation: The last hurrah of capitalism?

Let us first clarify what globalisation is *not.* There are many who like to argue with the hindsight of experience that there is nothing new about the globalisation happening now, especially in India, whose culture and civilisation since ancient times have been shaped by a myriad international influences and invasions. India has, in turn, been a great influence on others: during the course of history it has affected the cultures of China, Japan, South East Asia, the Islamic world, Africa and Europe. From Buddhism and philosophy to the fundamentals of arithmetic and algebra, India can take legitimate credit for its contributions to human culture.

Such a view is profoundly mistaken, not because India has not been a crossroads for human cultures. It has certainly been that and more. What is dangerously wrong about such a view is that it fails to understand the unique nature and significance of the profound *economic, ecological, military, ideological* and ultimately *political* and *cultural* changes that the recent — corporate — incarnation of globalisation has let loose, not merely on the subcontinent since its hurried, unplanned inception in 1991, but on the planet as a whole, putting in serious doubt the viability of human civilisation itself.

For our purposes here it is important to understand the character of recent globalisation as an economic and financial phenomenon originating in the West, embraced by the Indian ruling elites, and with far-reaching consequences for Indian society as much as for those elsewhere. The importance of financial globalisation is usually missed by people who focus too much on the globalisation of culture. Today, the volume of international financial flows is of much greater magnitude than the volume of international trade and global GDP itself.

Globalisation cannot be understood without keeping in focus the fact that the impetus for it has come from the Anglo-American world. During what is known to economists as 'the first wave of globalisation' (1870-1914), led by the British Empire, virtually the whole world was inducted into extensive international trading relationships. The First World War put an abrupt end to that. Importantly, finance was not a developed segment of the economy. So globalisation was restricted largely (though not exclusively) to trade and (some) direct (physical) investment by Britain and other European powers. We may note in passing that the international labour market was far freer then than it is today, with immigration to the US loosened by the requirements of the labour market. At that time, many countries did not even require passport checks and visas at their entry points.

Reckoned in terms of human mobility, the world was much more free than it is today.

Importantly, even in the West a quarter of a century ago (1980), no one had heard of globalisation. When this writer grew up in north India in the 1970s and 1980s, the word was certainly unheard of. The term came into use in the West very slowly during the 1980s and truly gained importance only in the 1990s after the fall of the Berlin Wall. Capitalism was declared to have been the winner of the Cold War over communism with which it was believed by many to have been in competition for three-quarters of a century. Now it was sold by the great powers — and India was not one of them — to the world as the superior economic system, by sheer virtue of having outlived its rival. And by the same token, the whole world was asked to adopt it.

It was the United States, under George Bush Sr, that imposed globalisation upon the world — as part of "the new world order" after the First Gulf War in 1991. This was necessitated by the requirements of further growth for American capitalism, in particular of its transnational corporations (henceforth, TNCs). This is a fact of extreme importance, with profound consequences for the future of the world, other than helping us understand somewhat accurately what is going on today.

Globalisation has far less to do with free trade (which rarely exists in practice, never mind the nomenclature) than with the extension and consolidation of markets within the broad canvas of the American empire — whatever the cost to the world and to ordinary Americans may be. It would not have happened without corporations. So, even using the term corporate globalisation is actually unnecessary. Globalisation throughout the modern era — whether you consider what economists call the first period of globalisation (1870-1914) or the present one (since the early-1980s) — has been led and sponsored by the ruling imperial power (Britain in the 19th century, the US today).

Neither the cotton farmers of Maharashtra, nor the fishermen of the Philippines or the Malabar coast, or for that matter any social group from a labouring class anywhere were consulted before policies of globalisation were imposed on their lives and livelihoods. They were not asking to be globalised. The corporations wished to have unrestricted access — to markets, natural resources, cheap labour and investment opportunities.

As we shall see, capitalism can only survive by expanding, by running harder and harder to stay in the same place. Expansion presumes many, many things, but above all it requires natural

resources, human labour, markets for final products, outlets for investment (in both physical and financial capital) and growing command of productive assets (for instance, enterprises hitherto in the public sector).

By the 1980s, after two centuries of growth in the Western world, capitalism encountered saturated markets in Europe, the US and Japan. The 1970s had been a troubled decade for the capitalist system, as it struggled with oil crises and stagflation. The Bretton Woods system — which was the cornerstone of international finance — broke down in 1971 when the US refused to convert dollars held by foreigners into gold. (From then on, the dollar became the default reserve currency of the world.)

There were two great oil price hikes — in 1973 and 1979 — whereby the OPEC cartel was practically able to hold Western economies to ransom. 1979-82 was the deepest recession in the West since the 1930s. The 1980s were a period of recovery from the deep recession, until the savings and loans crisis in the US precipitated the 1990 recession.

When Soviet communism ended in 1989, TNCs began looking first towards Russia, Eastern Europe and South East Asia. Later, they began

looking towards China and India for further expansion, after the 1997 financial crisis in South East Asia and the 1998 crisis in Russia dashed many hopes and destroyed much wealth. China, to be sure, had already begun to attract investments from TNCs after its reforms, by the mid-1980s. In the 1990s, the enormous populations, first of China, and later of India, began to be held up in Western corporate boardrooms as the "markets of the future".

IMF and World Bank economists popularised the use of the expression 'emerging markets' to denote those parts of the world which were potentially good spots for investment and which were increasingly being drawn into the sphere of Western capital. Large middle- and low-income countries — Brazil, Russia, India, Mexico, China (BRIMC) — were classified as 'emerging markets'. (East and South East Asia had already 'emerged' — and crashed in 1997.) One feature of these markets that was deemed uniquely different from the 'developed markets' of the Western world and Japan was the enormous significance of politics in shaping the climate for foreign investment.

Thus, globalisation refers to the growing integration of markets (not necessarily 'free') in different parts of the world. It also means the establishment of international production and supply chains across the globe. A product today involves inputs and processes that span oceans

and continents. Rubber could be collected in Malaysia, processed in Thailand, treated in China, vulcanised in South Korea and made into car tyres in California.

However, the economic integration of the globe has proceeded most rapidly in financial markets. Production, trade and direct investment have been slower to get ‘globalised’, for obvious reasons: money can be transferred at the click of a mouse. Goods and machinery take the long route by sea. The fact that finance is so mobile today is crucial for the stability of the global capitalist system, making it immensely more vulnerable to breakdowns. Even a casual look at the business pages today suggests that seasoned observers and financial regulators (including those at the IMF) are deeply anxious about the astronomically large, growing and increasingly autonomous, deregulated global financial markets — typified by the hedge fund phenomenon since the beginning of the century. More and more publicly quoted companies are selling out to private equity, making supervision more difficult. Gambling over everything — from currencies, companies and real estate, to natural disasters and pension funds — has become the norm in global financial markets, turning capitalism into what traditional economic wisdom used to fear: a casino. It also means that funds for investment in physical capital are less readily available, since the returns are low and slow by comparison.

3
How does capitalism work?

Six Ps are key to the understanding of capitalism: power, property, production, prices, profits and progress. Let's take each of them in turn.

Every economic system known to humanity has its foundations in political power. By power one means command of men and materials (natural resources, physical and financial capital and humanity's labour-power), not merely the holding of public office and the legitimacy that they confer on certain institutions and forms of economic activity. A corporate boss needs to have managerial authority over his/her employees and is normally only accountable upwards to his/her boss, who is a more senior manager or even the CEO of the corporation. There is a system of 'managerial hierarchies' by which corporate establishments are run. In addition to the control of people's labour, a corporation has to have control over technology, natural resources and inputs required for production processes. An aluminium plant needs to have access to bauxite mines, and so on. All this presumes power.

Capitalism is also premised on exclusive private property in the means of production. Private property is very different from personal property. If I buy a car and use it for my own ends, it is my personal

property. If I hire a driver to run the vehicle as a taxi, the same object becomes my private property. Why? Because I now use it to command the labour of another individual and make a profit from the enterprise. Why should he work for me? Because he does not have property of his own! This is crucial to the workings of capitalism: there must be people without property whose labour can be counted upon. How has this been

"England is not a free people, till the poor that have no land, have a free allowance to dig and labour the commons..."
Gerrard Winstanley, 1649

Source: http://tash.gn.apc.org/dig_attack.gif

ensured in the past? Usually by force, even conquest.

If I want your land for purposes of profit-making production, if I want you to work for me, and to buy the products that my company produces and sells, all I need to do is make sure that you are dispossessed of any resources — especially land — which can allow you to subsist on your own. Reality is of course more complex but this, in a nutshell, has been the history of the origins of capitalism in Western Europe. The Enclosure movement in Britain in the 16th and 17th centuries dispossessed peasants of their direct access to land and resources by force. It was denounced by the Church. Laws were passed to resist it. But ultimately the power of rising capitalist elites prevailed.

Similar processes of land and resource acquisition can be observed in the histories of the colonies: Asia (not least India), Africa, Latin America, Australia, North America were all brought into the sphere of European capitalist control between the 15th and 19th centuries. Though there is some debate on the matter, most economic historians are of the view that colonialism played the pivotal role in the economic growth and prosperity of the Western world. The colonies supplied cheap (often slave) labour, land, natural resources and ultimately markets for the sale of European products. There was no free trade! They also became, in various degrees, outlets for investment by

European capitalists. All this was made possible by successful military campaigns and colonial wars over a period of centuries. Almost all the major European powers — Spain, Portugal, Netherlands, Britain, France, Italy, Germany, Belgium and Denmark — established trading empires overseas.

All the discussion about globalisation, 'free trade' and suchlike that we hear nowadays presumes all of the above. Only then can we begin to speak about production, prices, profits and progress. So the equations of power and private property that come to prevail after dispossession, conquest and colonisation, are settled before the debates of modern economics — about how much play must be given to the market and where the government must intervene — begin. Economists, it has been noted by many an observer, only deal with solved political problems. In contemporary language, we often hear policymakers and advisors — in India right now, for instance — speaking of "the climate for investment": favourable political stability is essential for capitalist growth.

It is crucial to understand this because the institutionalised injustices of such a system are the root cause both of the dynamism of capitalist economies and of the inequalities and poverty they routinely generate. Rudely unequal, even perverse, outcomes are built into the

very warp and weft of the economic system as it is set up. The real competition in the world is over power, to which — unlike to material human needs — there is virtually no limit. Such has been the intensity of the competition for power in the past that virtually every major war of the 20th century in which the West has been engaged — beginning with the First World War — can be ultimately traced to European/American inter-capitalist rivalry in the quest for territory, resources, human labour and markets. Accumulated capital itself — money in everyday language — is the lubricant that runs the whole system: whoever has more of it has more power.

Markets run on the established political plinth outlined above. Normally, as can be imagined from the facts recounted above, there is never a ‘level playing field’. The economic world is not flat: it is tilted and uneven at its very foundations. Little wonder that we see around us the inequalities we do. If property is so unevenly distributed to start with — so much so that most have none of it — how can socio-economic inequalities not come about?

Adam Smith was the first to recognise that in order to make money you already have to have some. We notice this Catch-22 in so many situations around us. To take out a loan for anything, you need to offer some collateral: one among many reasons why the poor stay poor. The

argument is often heard nowadays — in relation to exploitative and cruel labour practices in poor parts of the world — that at least such people, whether they are in India, China or Indonesia, have jobs. The alternative — starvation — is much worse. Well, for this to have become the alternative, a prior process of dispossession has usually occurred: remembered by history, forgotten conveniently by today's policymakers and the media. Why must people have to choose between two evils? What forces have structured the economic system in such a way? What positive alternatives might there be? Such questions are rarely asked, let alone answered.

Let us now move to the other Ps of capitalist societies: production, prices, profits and progress. It will remain important to keep firmly at the back of our minds the competition for power in the world. (We will see how it explains in the end why no absolute amount of money satisfies so many people nowadays.) The dreams of capitalists find their inspiration there. The more production the better, though not in any simple way. Sometimes, for instance, monopolists restrict output deliberately in order to keep prices and profits high. In a competitive market, the goal is to increase sales and market share. Monopoly power would be ideal, though in a world with several competent competitors oligopolistic power is the realisable, though naturally shifting, goal. The further goal is, of course, profits.

This is important if one is to understand the scale of corporate priorities. Corporations do not primarily exist to employ labour. If labour is profitable to employ, it will be hired. If not, it will be fired or neglected. As a matter of fact, modern corporations do not like to have a stable workforce, preferring to sub-contract or outsource as and when necessary. As many as 3 million jobs were lost in the US during the first two years of the Bush presidency. A leading corporate intellectual Gurcharan Das recently quoted Nobel laureate Milton Friedman with some admiration: “The social responsibility of business is to make a profit.” (*The Times of India*, December 16, 2006)

However, profits are wanted not merely to enrich oneself and live well. The smart capitalist managers are the ones who save and invest the profits rather than distributing them as dividends to shareholders every time there is a windfall.

Saved profits are re-invested in order to expand the business. Investment is key to growth. And growth is desired for the reasons of economic expansion and power outlined above. But these are not the only reasons. Even a good-natured capitalist, not particularly greedy for wealth and power, is compelled to invest in a capitalist world. He usually has no option in a dynamic economy. Why? Because growth is a survival imperative in a competitive world. The company will lose

market share in an expanding market unless it invests and grows. Hence the constant push to create and exploit opportunities. There is no standstill possible when there is a relentless 24/7 race for dominance in the field of power. And in the end, power in a capitalist society is not achievable without growing wealth. This is one of the explanations for failed and risky ventures: energetic capitalists are always on the lookout for pre-emptive, competitive investments. Mistakes and miscalculations are inevitable at times. When many such failures converge in time, booms turn to busts.

It may be noted here in passing that — short of deliberate distributional interventions by the State through such means as direct taxation of the rich — all the promises of the trickle-down benefits of economic growth rest on its capacity to generate employment. However, the recent experience with automation and jobless growth suggests that output and growth can be raised nowadays without creating too many new opportunities for labour. A labour-rich country like India is caught in the paradox of modern economic growth, which generates wealth without creating much employment. In one extreme example in Maharashtra, one worker was observed to be in charge of 27 machines!

If corporations are allowed the freedom to grow unimpeded, we are

given to believe, they will in the long run create opportunities and employment which will drive down poverty. But life is a series of short runs and, as the great economist Keynes once observed, "in the long run we are all dead". In the short run technological improvements under capitalism inevitably cut jobs, as do 'corporate restructuring' to create more 'lean and mean' outfits. Moreover, corporate priorities are actually remarkably different from those of a nation. In a globalised world, they are interested in maximising their sales, profits and growth globally, not nationally. Even if this has a positive effect on the country's GNP (assuming that Indian passport-holders, and not merely people of Indian origin, gain from the economic success) it leaves the GDP (of much greater significance to the residents of the country) quite unaffected.

Capitalist societies inevitably associate progress with technological improvement since its consequences for greater efficiency (more 'lean and mean' companies), cutting costs, winning over the competition and expanding profits and growth are quite dramatic. Companies invest heavily in research and development for this reason. And if they can 'sponge off' State expenditures on R&D, as has happened in so many cases, especially in the US, all the better from the point of view of costs and reduction of risk.

Anything that stands in the way of profits, investment and growth — the rights and wages of labour, environmental standards, taxes, human rights of communities whose survival resources are often appropriated — is thus naturally seen as an obstacle to progress. Any serious conception of substantive democracy (for instance, one that involves worker participation in decision-making within the company, or the entitlement of affected communities to defend their right to livelihood and way of life) thus naturally stands in the way of capitalist progress.

Where do prices come in? We notice them everywhere there are markets, as the most obvious phenomenon of economic life. They determine the relative value of things in terms of money. How are the values determined? This is where economists of different political persuasions have violent disagreements. According to mainstream economists, they are determined by 'the invisible hand' of competitive market forces. The assumption is that there are far too many producers in most markets for any single producer to make any difference to prices. The phenomenon can best be observed at a smoothly functioning stock market, or even a weekend farmers' market. If anyone sells a product above its free market price, s/he will lose customers.

This view is disputed by other economists who argue that the real world of industry is more oligopolistic (a few sellers, and often only a monopolist) than the models of economists assume. Instead of competitive prices — assuming normal profits — many corporations do 'mark-up pricing' and continue to make supernormal profits which do not get competed away even over the long run. Additionally, as firms grow large, they are better able to exploit the advantages of large-scale production and purchase of inputs. In other words, we see one of the forms in which market failure happens: the exercise of market power. A good example is Microsoft: it has been the market leader in computer software almost since its inception. Thanks to its initial technological advantages and early gains it has often been able to buy out potential competitors before they could become a serious threat to its market position. Some are even of the view that technologically superior products — such as operating systems created by Apple Computers — have not seen the light of day as a result.

It is easy to miss all this if one just takes a 'what meets the eye' view of the marketplace. The truth is that in the sort of world we have come to live in, it is actually 'the invisible hand' of corporations (many of which are larger in economic terms than entire countries in the rich world!) which sets prices and makes the movements behind what are called 'free' markets. In most key areas of production, a handful of

corporations control the global market. And when mergers and acquisitions happen, market power is further concentrated. According to an AP report, acquisitions made worldwide set a new record of almost $ 3.5 trillion in 2006. 2006 has seen eight of the 10 biggest company mergers in history. *(http://www.ibtimes.com/articles/20061122/acquisitions.htm)*

How is it then that we hear so much about competition lowering prices for consumers? The answer is that there is competition. But it is very far from perfect, unlike what the models of mainstream economists assume. It is oligopolistic in various degrees. Oligopolies often collude with each other, quietly or otherwise, to control prices. There is what is called 'anti-trust' legislation to prevent and control it in rich countries. (It doesn't always work.) But there is no anti-trust legislation (similar to the WTO, for instance) operating at the international level. According to ActionAid, six multinational corporations (MNCs) — Archer Daniel Midlands, Conagra, Monsanto, Cargill, Nestle and Atria (formerly Philip Morris) — control 90% of the world grain trade. *(http://www.globalpolicy.org/socecon/tncs/2005/01powerhungry.pdf)*

Almost all economists agree that market power is a serious case of market failure. Yet, most mainstream economists blithely advocate

free trade and the lifting of public controls, knowing well in advance that the playing field is utterly uneven and will necessarily generate huge inequalities.

Perhaps a quotation from Adam Smith, the great-grandfather of economics, will clarify the dangers of an oligopolised global marketplace. In 1776, he wrote in *The Wealth of Nations:*

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings by any law which either could be executed, or would be consistent with liberty and justice."

What does 'going global' mean to an Indian company?

It's far easier to be a global player today than to be a patriotic one. It is one thing for some Indian companies and big businesses to be successful global players. Another thing for the Indian economy to benefit from that. The name of Lakshmi Mittal tops the list of Indian billionaires quoted widely. He is the owner of the largest steelmaking company in the world. But despite being of Indian origin, his contribution to the Indian economy is negligible, since most of his operations are in other countries, like Kazakhstan or the EU.

"What a difference a year makes," says an article in *The Economist Global Agenda* titled 'A Growing Indian Empire', October 20, 2006. *"In 2005 Tata Steel, India's largest private-sector steelmaker, was an industry minnow ranked as only the 56th largest steelmaker in the world, by production. It was a likely meal for bigger fish to swallow. Now, after striking a $ 8 billion agreement to take over Corus, a much larger Anglo-Dutch rival, it is poised to become the sixth largest such firm on the planet, with a likely annual output (judging by last year's performance) of some 22.6 million tonnes.*

"...Mittal Steel (a Europe-based firm run by an Indian tycoon, Lakshmi Mittal) has devoured Arcelor, a Luxembourg-based steelmaker, for $ 32.2 billion, and is easily the world's biggest steelmaker. Consolidation in the steel industry seems to be the result of firms seeking more leverage over the

few global suppliers of the raw materials (iron ore and coking coal) for making the metal.

"The expansion of Tata is also a reflection of a rapid growth in confidence among Indian firms. This deal is by far the largest foreign purchase ever made by an Indian company. Corporate India has matured dramatically since 1991, when reforms cut away bureaucratic controls and encouraged the creation of a more competitive marketplace...

"Indian companies are in an expansive, acquisitive mood. So far this year Indian firms have announced 131 foreign acquisitions, with a total value of $ 18.7 billion, a huge increase on previous years, and much more than foreign firms have invested in Indian purchases.

"The shopping spree spans industries from information technology (IT) and outsourcing to liquor. Wipro, for example, one of the country's big three IT firms, has this year acquired technology companies in Portugal, Finland and California. In pharmaceuticals Ranbaxy, an Indian maker of generic drugs, bought Ethimed of Belgium and Mundogen, the Spanish generics arm of GlaxoSmithKline.

"Behind this push overseas lies a combination of forces: a domestic boom; the availability of credit; a rush to achieve global scale; and a new self-confidence about Indian business' ability to add managerial value. India's economy is in its fourth successive year of growth at around 8%. In the first two quarters of this year GDP grew at rates of 9.3% and 8.9%

respectively over the same periods in 2005.

"What is noteworthy about many of the firms is that the root of their success is not India's obvious competitive advantage: its vast, low-cost labour force. In the IT and outsourcing industries, lower salaries for college graduates are an important reason behind Indian firms' rapid growth. But in manufacturing the stars tend to be experts in automated, capital-intensive production. Bosses who have flourished in such businesses in India, with its poor infrastructure and still-daunting regulatory environment, understandably feel confident that they have lessons to teach their new purchases in other countries."

So Indian big business is creating jobs in Britain and the US, even in China. This, however, does not mean that they are creating jobs and wealth in India for ordinary Indians. In a high-tech globalised world economy, capital seeks out skilled labour, cheap resources, appropriate market conditions, infrastructure and suitable government policy incentives wherever they are to be found. Thus Indian companies have been locating everywhere from China to Eastern Europe to Britain and the US, sometimes even carrying plenty of capital from India with them (though a lot of money is being raised abroad).

Indian business can acquire copper mines in Zambia and Australia. They can buy oilfields in Equatorial Guinea and set up software production units in Eastern Europe close to markets in the EU. They can create R&D

establishments in Britain, inviting British scientists to work for them. But does any of this help to create opportunities and employment for Indians back home? Not unless the profits are remitted and invested at home. Of this there is little guarantee, especially if the conditions which led the companies to do business abroad continue to prevail.

Market power in retailing: Who benefits, who loses from the arrival of supermarkets?

Recently, Reliance announced plans for a huge launch of 'large format' retail marketing in India, involving "seamlessly smooth supply chains" from the farmer's field to the urban supermarket. Supermarkets are expected to open in 784 Indian cities during the next five years, selling everything from toothpaste to tomatoes. Companies rely on taking control of their markets both through horizontal integration (mergers with acquisition of competitors' companies) and through vertical integration (taking possession of their suppliers' production lines).

Even if it has some short-run benefits for small farmers, who do not have to pay middlemen exorbitant shares of sales revenue, the long-run advantages for the expanding corporations are of such a scale that no short-run benefits for anyone connected to the business are safe. Besides, already complaints are being heard from small urban shopkeepers whose businesses are seriously threatened. There are as many as 12 million small retailers in India, employing millions of people. *(http://www.iht.com/articles/2006/11/05/bloomberg/sxreliance.php)*

Meanwhile, Bharti Enterprises is tying up with Wal-Mart to open hundreds of retail stores in India. *(http://www.iht.com/articles/2006/11/27/business/store.php)*

4

Has the 'free market' ideology been the route to prosperity in the Western world?

If rich countries had followed free market policies in the initial stages of economic growth, they would never have become rich in the first place. The evidence is too overwhelming to deny (see 'Kicking Away the Ladder?').

World rulers today want corporate markets, not free markets. Free markets are what they are trying to get rid of.

Shouldn't developed countries be forbidden by the WTO to subsidise their agriculture so heavily in order to falsely maintain the illusion of comparative advantage, when in fact the developing countries are comparatively far more efficient in the production of food (even if the productivity of labour in a far less mechanised agriculture is much lower in the poor countries)? In all fairness, especially keeping in view the large proportion of their population that lives by agriculture, shouldn't developing countries have a greater right to subsidise their agriculture and protect their markets than the wealthy countries?

Unfortunately, the rules that have been imposed on the poor nations

of the world make all this most unlikely. Without a radical challenge to the undemocratic character of international multilateral institutions — especially the IMF and World Bank (dominated as they are by the Western powers) — it is hopeless to expect fairness in economic matters.

Kicking away the ladder?

By Ha-Joon Chang

"There is currently great pressure on developing countries to adopt a set of 'good policies' and 'good institutions' — such as liberalisation of trade and investment and a strong patent law — to foster their economic development. When some developing countries show reluctance in adopting them, the proponents of this recipe often find it difficult to understand these countries' stupidity in not accepting such a tried-and-tested recipe for development. After all, they argue, these are the policies and the institutions that the developed countries had used in the past in order to become rich. Their belief in their own recommendation is so absolute that in their view it has to be imposed on the developing countries through strong bilateral and multilateral external pressures, even when these countries don't want them.

"Naturally, there have been heated debates on whether these recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are sceptical of the applicability of these policies and institutions to the developing countries take it for granted that these were the policies and the institutions that were used by the developed countries when they themselves were developing countries.

"Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and the institutions that they now recommend to, and often force upon, the developing countries. Unfortunately, this fact is little known these days because the 'official historians' of capitalism have been very successful in re-writing its history.

"Almost all of today's rich countries used tariff protection and subsidies to develop their industries. Interestingly, Britain and the USA, the two countries that are supposed to have reached the summit of the world economy through their free-market, free-trade policy, are actually the ones that had most aggressively used protection and subsidies.

"Contrary to the popular myth, Britain had been an aggressive user, and in certain areas a pioneer, of activist policies intended to promote its industries. Such policies, although limited in scope, date back to the 14th century (Edward III) and the 15th century (Henry VII) in relation to woollen manufacturing, the leading industry of the time. England then was an exporter of raw wool to the Low Countries, and Henry VII for example tried to change this by taxing raw wool exports and poaching skilled workers from the Low Countries.

"Particularly between the trade policy reform of its first Prime Minister Robert Walpole in 1721 and its adoption of free trade around 1860, Britain used very dirigiste (State-directed) trade and industrial policies, involving

measures very similar to what countries like Japan and Korea later used in order to develop their industries. During this period, it protected its industries a lot more heavily than did France, the supposed dirigiste counterpoint to its free-trade, free-market system. Given this history, argued Friedrich List, the leading German economist of the mid-19th century, Britain preaching free trade to less advanced countries like Germany and the USA was like someone trying to 'kick away the ladder' with which he had climbed to the top.

"...Between the Civil War and the Second World War, the USA was literally the most heavily protected economy in the world...

"In protecting their industries, the Americans were going against the advice of such prominent economists as Adam Smith and Jean Baptiste Say, who saw the country's future in agriculture. However, the Americans knew exactly what the game was. They knew that Britain reached the top through protection and subsidies and therefore that they needed to do the same if they were going to get anywhere. Criticising the British preaching of free trade to his country, Ulysses Grant, the Civil War hero and the US President between 1868-1876, retorted that 'within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade'. When his country later reached the top after the Second World War, it too started 'kicking away the ladder' by preaching and forcing free trade to the less developed countries.

"The UK and the USA may be the more dramatic examples, but almost all the rest of the developed world today used tariffs, subsidies and other means to promote their industries in the earlier stages of their development. Cases like Germany, Japan, and Korea are well known in this respect. But even Sweden, which later came to represent the 'small open economy' to many economists had strategically used tariffs, subsidies, cartels, and State support for R&D to develop key industries, especially textile, steel, and engineering...

"If the policies and institutions that the rich countries are recommending to the poor countries are not the ones that they themselves used when they were developing, what is going on? We can only conclude that the rich countries are trying to kick away the ladder that allowed them to climb to where they are. It is no coincidence that economic development has become more difficult during the last two decades when the developed countries started turning the pressure on the developing countries to adopt the so-called 'global standard' policies and institutions.

"During this period, the average annual per capita income growth rate for the developing countries has been halved from 3% in the previous two decades (1960-80) to 1.5%. In particular, Latin America virtually stopped growing, while sub-Saharan Africa and most ex-communist countries have experienced a fall in absolute income. Economic instability has increased markedly, as manifested in the dozens of financial crises we have

witnessed over the last decade alone. Income inequality has been growing in many developing countries and poverty has increased, rather than decreased, in a significant number of them.

"What can be done to change this?

"First, the historical facts about the historical experiences of the developed countries should be more widely publicised. This is not just a matter of 'getting history right', but also of allowing the developing countries to make more informed choices.

"Second, the conditions attached to bilateral and multilateral financial assistance to developing countries should be radically changed. It should be accepted that the orthodox recipe is not working, and also that there can be no 'best practice' policies that everyone should use.

"Third, the WTO rules should be re-written so that the developing countries can more actively use tariffs and subsidies for industrial development. They should also be allowed to have less stringent patent laws and other intellectual property rights laws.

"Fourth, improvements in institutions should be encouraged, but this should not be equated with imposing a fixed set of (in practice, today's — not even yesterday's — Anglo-American) institutions on all countries. Special care has to be taken in order not to demand excessively rapid upgrading of institutions by the developing countries, especially given that they already

have quite developed institutions when compared to today's developed countries at comparable stages of development, and given that establishing and running new institutions is costly.

"By being allowed to adopt policies and institutions that are more suitable to their conditions, the developing countries will be able to develop faster. This will also benefit the developed countries in the long run, as it will increase their trade and investment opportunities. That the developed countries cannot see this is the tragedy of our time."

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India's feudal globalisation since 1991

Following a short-term exchange crisis in the summer of 1991, the Indian government hurriedly ushered in the era of economic reforms in the country. In summary, it involved the liberalisation of the country's foreign trade, the privatisation of many public sector companies and assets and, in general, opening up to the forces of globalisation (LPG). Space prevents us from looking in-depth into the content and experience of the reforms. Here one may restrict oneself to making a set of observations about the socio-economic assumptions underlying the reforms.

Consider the pattern of economic relationships in an industrialised Western country. They are founded in formal contracts that are legally enforced and protected by the State. There are strict rules that control the exploitation and abuse of labour, just as there are firm laws that protect property rights, especially ownership of land and other means of production. There is an extensive and intricate structure of legislation that regulates economic activity, especially in the area of finance. Even after deregulation since the Thatcher-Reagan years of the 1980s there is still a more or less effective framework of regulation, which enables the otherwise volatile capitalist economy to remain stable and viable.

Now consider the pattern of economic relationships in a country like India. It is true that we have a modern Constitution that defends the rights of labour and property. However, theory is one thing, practice quite another. In actual fact, the abuse and exploitation of labour is rampant and intricately diversified in the Indian setting. From discriminatory wages for women and men, to bonded labour, slavery and the super-exploitation of child labour, not to mention an impressive diversity of informal labour contracts which have no material proof and thus inevitably involve enormous exploitation, India offers some shocking examples of routine abuses of human rights.

The equivalent of children slaving 14 or 16 hours a day at a factory making Diwali crackers, or of old women without helmets carrying a dozen bricks on their bare heads at a construction site, or of bonded labourers working without wages at brick kilns for years on end are not to be found in any modern society, let alone in an industrialised one in the West. These are not things that show up in the national economic growth rate — except that it could be keeping it lower and qualitatively inferior to what the national potential may be if the rights of ordinary people were respected by the neo-liberal economic regime in force.

The growth rate is also lower because the efficiency of labour —

which is not merely a function of the capital available per worker, which is certainly important — in a feudal setting is much poorer than under a well-arranged capitalist contract which respects the rights of workers. Two economies, each having the same capital available per worker, will experience very different levels of labour productivity in accordance with whether or not the rights of labour have been duly and fairly secured.

Not only is it true that labour is exploited in India along lines that remain overwhelmingly feudal (as outlined above), there is something else that marks and mars Indian globalisation: the pattern of acquisition of land and natural resources by the corporations through the high offices of governments, both at the level of the state and the Centre. While this has been happening in India ever since one can remember, it is undeniable that arbitrary appropriation of land and resources from powerless, ordinary people in the Indian countryside has accelerated since the inauguration of reforms in 1991 and takes new momentum with the announcement of the setting up of SEZs (Special Economic Zones). Just a brief — inadequate — listing of cases of such land-grab would serve to remind the reader of the scale of injustices that are being inflicted all around India today: Narmada, Umbergaon, Kalinganagar, Jagatsinghpur, Bantala, Singur, Chhattisgarh, Jharkhand, Plachimada, Dadri, Raigarh… the list is endless.

Recourse is taken in an anachronistic piece of legislation — the Land Acquisition Act of 1894 — to take over the land of farmers, grazers and forest-dwelling communities, ostensibly for public purposes of development. There are at least three major problems with such an approach to development. Firstly, in a country in which two-thirds of the population is dependent on agriculture, land is a key factor of production. The 1894 Act was drawn up when the population of undivided India was less than 200 million, less than 15% of what it is today. When the pressure on land is so much more acute, it is even more unconscionable for the State to acquire land in such a fashion. There has been some talk recently about making amendments to the Act, but nothing concrete has been achieved so far.

Secondly, the 1894 Act was made for colonial purposes, such as acquiring land for building railroads to transport raw material to factories and finished goods to ports for shipment to Europe and so on. It really has no place in a free India committed to the economic development of its own people.

Thirdly, while the State is trying to nudge farmers out of agriculture — arguing that it is increasingly uneconomical — and sometimes offering them above-market-price compensations for the loss of land, it is consciously or inadvertently contributing to a real estate boom in

the country: the real estate market in India, according to Goldman-Sachs and Merrill-Lynch, is expected to grow eight-fold in the next decade. The hypocrisy is too obvious to belabour. It also results in some acute economic perversities. For instance, the government has often got large landowners to part with a portion of their land because the latter are aware that the arrival of big capital in the region will inflate land prices (including for the remainder of their land) to astronomical levels. Overall, they would benefit hugely from such deals. However, for the smallholder, who has to part with all his land, there are no such windfalls from the real estate gambling den.

Prime agricultural land is being acquired for SEZs, when the State could as easily develop the 68 million hectares of wasteland in the country (which constitutes 21% of the total land area). The reason for this is obvious. Companies and developers understandably prefer a region in which infrastructure — such as roads, power and water — is already well developed instead of having to be built from scratch. This is ordinarily the case with areas of fertile agricultural land. In some cases, as with the Ansals in Haryana, real estate developers are being given the authority to tax residents. These are disturbing signs of the privatisation of the State, of the return of zamindari (in corporate incarnation).

Struggles and resistance movements are under way throughout the country to defend the rights of millions of people whose lives and livelihoods are entirely dependent upon access to land and natural resources. As an aside, it is important to note that while everyone is aware of the rights of ownership that are being infringed upon, no one is even mentioning the rights of use that have existed in Indian forests, fisheries, pastures and surface and groundwater reserves since time immemorial. For many millions, the appropriation of the material basis for their lifestyles will spell doom in the years to come. Even the British rulers did not go this far in the direction of riding roughshod over Indian customs and traditions of millennia.

An important connection between the appropriation of land and resources from powerless millions, on the one hand, and the exploitation of labour on the other has to be made. All too often, as theory also would predict, those who are exploited have no access to productive assets of their own. It is disingenuous to argue, as is commonly done, that people who are vulnerable to exploitation of labour (in India, China or elsewhere in poor countries) would be even worse off if they were not offered jobs by modern industry, that they might even starve to death. In all such cases, people have first been dispossessed, albeit sometimes in some previous generation. The answer to the economic challenges that face them is not to suck their

blood with rapaciousness all too familiar to hundreds of millions. It is to make land, capital, education and healthcare accessible to them under a paradigm of development quite distinct from the one in place today.

However, the international race of corporate totalitarianisms is leading the world, and each competing country within it, in a very different direction. Under the neo-liberal dispensations that prevail today (and there is neither anything new nor liberal about neo-liberalism, if one's definition of freedom involves something other than corporate freedom), each State is driven to increase its power by enabling the corporations operating within its boundaries to maximise their sales, profits, investment and growth. The competition to attract corporate investment takes place both internationally (say, between India and Indonesia) and nationally (between Madhya Pradesh and Maharashtra, or between New Jersey and Nebraska), with all too predictable consequences for the living and working conditions of the poor as much as for the environment that enables industrial production to proceed.

SEZs: The return of the zamindari system?

Only time will tell how the powerful forces of globalisation in a still-feudal caste-conscious society play themselves out in the future. What is clear is that the State, far from fulfilling its responsibilities to the people in terms of wisely guiding the process of development, has actually become the real estate broker for the propertied classes. Recently, under the SEZ Act of 2005, it has been negotiating lucrative terms on land and resources being acquired forcibly by Indian and transnational corporations in various regions of India. This is nothing better than an updated version of feudalism. One may describe the pattern of political and socio-economic relationships enabling such unfree market transactions as "corporate feudalism".

The number of jobs that the government is claiming the SEZs will create may be up to 500,000 over the next three years (till 2009). The number of 'jobs' (livelihoods would be a more accurate term) lost may add up to well over that number (possibly double that number), for not only are people displaced by such 'development' projects, many others (such as barbers, cleaners, vendors) whose livelihoods are dependent upon the rural agricultural economy, suffer permanent losses too. The government claims to compensate the losers but, in practice, this often does not happen. Even if it does, the payments made for the transfer of land and resources are rarely adequate and, in any case, can never compensate for the loss of social consumption (for example, loss of use of rural infrastructure like roads or irrigation) and the breakdown of a whole way of life and culture.

India's Special Economic Zones (SEZs)

"They worked in China. But will India's zones boost investment, or just divert it?

"The idea is simple enough: SEZs are enclaves with streamlined procedures, tax breaks and good infrastructure that will lure investors in 'export-oriented industries'. Many developing countries, including China, have used them successfully. They are not even new in India. In 2000, eight existing export processing zones, the first of which dated from 1965, were converted into SEZs. But in February, India's Parliament finalised a new SEZ law, offering even more enticements. There has since been the bureaucratic equivalent of a gold rush. Companies, including most of India's most famous firms, have filed more than 400 applications to set up SEZs, and 212 have been approved.

"Banging the drum for India as an investment destination in London this week, Prime Minister Manmohan Singh and his commerce minister, Kamal Nath, were able to point to the SEZs as evidence of India's new openness. Mr Nath's ministry hopes they will attract more than $ 5 billion in foreign direct investment by the end of 2007 — a huge amount for India by historical standards. They are also intended to fix India's 'infrastructure deficit' of pot-holed roads, clogged ports and intermittent power. The government hopes that with the incentives available in SEZs, the private sector will make a big contribution towards the $ 320 billion-worth of investment in infrastructure

that India is looking for in the next five years.

"That is a laudable enough aim. But the SEZs are under fire on many fronts. Politically, the most sensitive charge, and the one that will probably lead to some change in policy, is that farmers are being forced to sell their land and lose their occupations, and that state governments and developers are profiteering. Sonia Gandhi, Congress' leader, says that agricultural land normally should not be used for SEZs. But under India's Constitution, land is an issue for state governments, not the Centre.

"Many of the SEZs mooted may simply be property deals. Developers hope to acquire cheap land, put in a minimum of infrastructure and sell it. Only 35% of the land area of a SEZ must be used for production. Even the central bank, the Reserve Bank, seems to have suspicions, classifying loans to SEZs as 'real-estate' lending, which makes them relatively expensive.

"Even some investors planning to manufacture in a SEZ think the terms too generous. They include a five-year holiday on profits tax, and exemption from import and excise duties and from some licensing requirements. Rahul Bajaj, Chairman of Bajaj Auto, a maker of two- and three-wheeled vehicles, argues that 'any rational businessman would conclude he is better off being in a SEZ'. Since, to qualify for the benefits, a manufacturer in a SEZ need only be a net earner of foreign exchange over a five-year period, rather than exclusively an exporter, firms such as his can use a SEZ to supply some of their domestic market.

"The fear of many economists — including some in the Ministry of Finance — is that rather than promoting new business, the SEZs will merely attract investment that would have been made anyway. Instead of finding fresh sources of money for its infrastructure, India would thereby have made things worse by depriving itself of tax revenue. Raghuram Rajan, chief economist at the IMF, expresses concern that India, with its big fiscal deficit, can ill afford this loss. Earlier this year the finance ministry put it at Rs 1,750 billion ($ 38.3 billion) by 2011. The commerce ministry counters with its own forecast that the SEZs will generate additional revenues of Rs 440 billion.

"One of the big differences between India's SEZs and China's is in size. Although Reliance Industries, India's biggest private sector company, is planning enormous, town-sized SEZs near Mumbai and in Haryana, near Delhi, most of the others are tiny. The minimum area for a 'multi-product' SEZ is 1,000 hectares (3.9 square miles), for a 'product-specific' zone it is 100 hectares, and for information technology, biotechnology and jewellery, just 10 hectares. By comparison, Shenzhen, biggest and most famous of China's original SEZs, covers 126 square miles. That scale was a huge factor in its initial success — along with the presence, just over the border in Hong Kong, of labour-intensive manufacturers wanting to lower their costs. Enjoying neither of these advantages, India's smaller SEZs may do more for their promoters than for India."

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The outlook for the future: Staring at likely unsustainabilities

Much is being heard nowadays about the high growth rates that the Indian economy is clocking. India's economic performance is repeatedly — and inappropriately — compared to China's. In fact, the comparison is somewhat unmerited.

China's growth record stands atop robust foundations of physical infrastructure, education and health set up during the period when it was closed to the world economy. Moreover, even more importantly, it abolished feudalism in principle and practice after the communist revolution in 1949. Deng Xiao-Ping, in fact, redistributed land to the peasantry and created small town and village enterprises after the reforms began in the late-1970s. No such land reform was ever carried out in most parts of India (Kerala and West Bengal being partial exceptions). In fact, judging from recent land acquisitions by the State for purposes of 'development', one would infer that exactly the opposite policies have been pursued in India. Feudal socio-economic relations are still intact under the dazzling surfaces of modern capitalism. This may prove to be the lasting stumbling block to the economic breakthrough that India is looking for. All talk of being a

'superpower' is rudely misplaced when India's per capita income is about $ 2 a day at market exchange rates. For comparison, we may remember that China's is about $ 6-7 a day and America's and the EU's are both above $ 100 a day.

Numbers can numb us into thoughtless, heroic optimism. Some of the aggregate figures for the Indian economy — especially the short-term growth rate — can look so impressive that one may be misled into thinking that the future will look much like the recent past. That the IT/BPO-led boom will continue to generate revenue and employment in the future, if anything at an even faster pace.

No matter how rosy the short-term outlook may appear to some, there are deep-seated reasons for scepticism, as the *Economist* article in the accompanying box mentions. In addition, there are at least two sets of problems, one less long-term than the other.

First, the increasingly external orientation of the Indian economy exposes us to new dangers and vulnerabilities arising from the cycles and instabilities of the global economy. Not only are agricultural incomes more exposed to the uncertainties of the global marketplace (in addition to the great uncertainties associated with agriculture generally), the greater the share of international trade in GDP, the

larger is the risk arising from fluctuations in world markets. A recession in the US, for instance, is likely to have an immediate contractionary effect upon the Indian economy, thanks to the outsourced businesses in India. The Indian IT boom is so far untested by a US recession. Further, the Indian economy is vulnerable to shocks arising from the fragility and instability of the global financial system. The danger is heightened if the rupee becomes fully convertible on the external capital account, as appears to be on the agenda of policymakers today.

Secondly, the boom of the last decade has been fuelled largely by an exploding consumer demand from the middle classes. Export growth has been substantial (even impressive in some areas like IT, BPO and light manufactures), but hasn't kept pace with the growth in imports. Investment has not grown as rapidly as might be desired. It is the demand from the middle classes — repressed for ages — which has been the source of most of the growth in demand.

Recall that it is effective (income-backed), not potential demand that matters for the macro-economy. What happens if and when middle class demand gets saturated, and the bills for consumer durables purchased on debt come home? In the absence of a growth of incomes (and demand) from the lower classes (an accretion to the ranks of the middle classes), and the absence of equity in the economy, there might

well be a problem of inadequate demand facing the Indian economy, much like what happened to the West in the 1930s. In the 1930s, the problem was addressed in the West by the government increasing its spending and generating secondary cycles of expenditure in the economy. Ultimately, the empty factories and unemployed workers were thus put to work and growth resumed, thanks to the boom because of World War II. In India, with the tax cuts that have been given to rich classes, both urban and rural, the government's spending options are limited.

The more serious problems, even if the demand constraint on the growth of the economy can be faced, are long-term in nature. Sustainable growth requires a far wider base than the growth of a few lead sectors like IT and BPO. It is worth recalling that well under 1% of Indians are employed in these two service areas of the economy.

Besides, there are severe long-term bottlenecks and challenges that are likely to slow down the growth rate or even bring Indian globalisation to a complete halt in the not-so-distant future.

There is, first of all, a desperate shortage of physical infrastructure. Investments in roads, bridges, ports, airports, power-generation and irrigation continue to be low despite a crying need for them in all

sectors of the economy. The reason is not hard to find. Unremitting recitation of the market mantra has lulled political leaders, the policymaking elite, the media and laypeople alike into an unfounded belief that somehow the free play of market forces will ensure the provision of whatever is demanded. That demand shall call forth its own supply, to reverse an old law of classical economics. In the rush towards privatisation of State enterprises that started in the 1990s, Indian policymakers forgot that private investors have few incentives to invest in infrastructure.

But economists should be the first to recognise that the market is all too poor at providing public goods (goods whose use by non-payers, once provided, is hard to prevent). Infrastructural investments tend to be too large for most private parties and, necessary as they are for modern economic growth, the returns on them are slow to come by. It is precisely for this reason that in rich countries they have been provided typically by massive State investments, at least in the initial stages of economic growth.

Everyone today — large and small companies as much as ordinary citizens, not to mention the government itself — pays the price for the Indian State reneging on one of its key economic responsibilities since the early-1990s.

There is then the huge constraint imposed on future growth by widespread illiteracy and lack of education. Educational inequalities in India are perhaps the worst in the world. India has the largest illiterate population on the planet even as it has one of the largest pools of qualified manpower (now fully occupied). This is not merely morally unconscionable, it makes Indian growth rates unsustainable in the long-term, especially when it is remembered that we are meant to grow on the backs of a so-called 'knowledge-based economy'. Our famed skilled labour pool is drying up rapidly as companies both Indian and foreign, both within India and abroad, entice technically trained labour at ever higher prices. There is a near-universal complaint from businesses operating in India about the difficulty of finding and retaining qualified workers — engineers, software technicians, draughtsmen and others.

The ironic truth is that by denying common people the fundamental right to education, Indian elites might have dug their own economic grave over the long haul. Feudal prejudices against education for the masses survive in India. By comparison, China, thanks to huge investments and commitments made under communism, suffers no such bottleneck to its growth process. It is thus far better placed to harness the potential for growth and development in a globalised

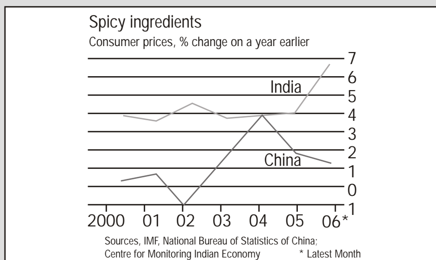
world. The outcomes resulting from globalisation are shaped and determined by the underlying and pre-existing conditions under which globalisation takes place.

Further, while it has not eliminated poverty, China still has a far healthier population, something that is undeniably an asset in the pursuit of long-run economic growth. You can't grow at 9 or 10% for too long when almost half your children are malnourished, as is the case with India.

The cumulative consequences of bottlenecks in physical and social infrastructure (health and education) for the process of growth are profound. The sad truth is that shortcomings like these cannot be rectified within a short time horizon. Bharat — and India — will continue to pay for a long time for the failure to make the right public investments at the right time during the past several decades. All reports — official and otherwise — confirm that globalisation hasn't altered the basic picture of human development at all. If anything, recent data (like the Family Health Surveys) show that it might well have compounded problems over the last one-and-a-half decades.

Is the Indian growth rate sustainable?

"India's economy displays an alarming number of signs that things have gone too far. Consumer-price inflation has risen to almost 7% (see chart), well above Asia's average rate of 2.5%. A recent report by Robert Prior-Wandesforde at HSBC finds many other signs of excess. For example, in a survey of 600 firms by the National Council of Applied Economics Research, an astonishing 96% of firms reported that they were operating close to or above their optimal levels of capacity utilisation — the highest number ever recorded. Firms are also experiencing a serious shortage of skilled labour and wages are rocketing. Companies' total wage costs in the six months to September were 22% higher than a year earlier, compared with an average increase of around 12% in the previous four years.



"India's current account has shifted to a forecast deficit of 3% of GDP this year from a surplus of 1.5% in 2003 — a classic sign of excess demand.

Total bank lending has expanded by 30% over the past year, close to the fastest growth on record.

"India's share and housing markets also look bubbly. Draft proposals by the central bank on November 17 to cap banks' exposure to stockmarkets and curb reckless lending only mildly dampened the optimism. Share prices are almost four times their level in early 2003. India's price/earnings ratio of 20 is well above the average of 14 for all Asian emerging markets. House prices have also gone through the roof: Chetan Ahya of Morgan Stanley reckons that prices in big cities have more than doubled in the past two years. Housing loans jumped by 54% in the year to June (the latest figures available) and loans for commercial property were up by 102%.

"Indian policymakers seem reluctant to admit that economic growth has exceeded its speed limit over the past three years, let alone slow it. They prefer to bask in the belief that India has become another China, able to keep growing ever faster without inflation rising. Palaniappan Chidambaram, the finance minister, has said the Indian economy will continue to grow by more than 8% in the next few years.

"India's trend growth rate has almost certainly increased but it is still nowhere near as high as China's. Mr Prior-Wandesforde estimates that it is now around 6.5%, up from 5% in the late-1980s. But India's recent acceleration largely reflects a cyclical boom, thanks to loose monetary and fiscal policy. The Reserve Bank of India has raised one of its key interest

rates by one-and-a-half percentage points to 6% over the past two years, but inflation has risen by more, so real interest rates have fallen and are historically low. This makes the economy more vulnerable to a hard landing.

"India cannot grow as fast as China without igniting inflation because of its lower investment rate, particularly in infrastructure, and labour bottlenecks. The latest government figures, for the year ending in March 2005, put total investment at 30% of GDP, compared with over 45% officially reported in China.

"Some, however, believe that an investment boom is under way. A recent report by Surjit Bhalla of Oxus Investments, an economic research firm and hedge fund, has caused a stir by estimating that investment in the year ending in March 2007 will reach between 38% and 42% of GDP. Such investment, he says, would allow India to sustain 10% annual GDP growth.

"Sadly, Mr Bhalla's estimate for investment is almost certainly too high. Unless saving (29% of GDP in 2004-05) has also surged over the past two years, an investment rate of 40% would imply a current account deficit (which must equal the gap between saving and investment) of close to 10% of GDP. This does not square with trade figures and, in any case, it would hardly be a sign of economic health. Nor does a significant increase in saving look likely, given strong consumer spending this year and only a modest fall in the government's budget deficit." (http://www.economist.com/displayStory.cfm?Story_ID=8326793)

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Is the pattern of growth socially and politically sustainable?

Apart from all the challenges discussed, insurmountable as many of them might turn out to be, there is the lurking threat of social and political sustainability of the present pattern of growth. In six general elections over the past 18 years, the incumbent coalition has not been returned to office even once. What does this show? Quite simply, that the material needs of the majority of people in the country are not being met. India doesn't shine for everybody. In fact, it may not be shining for most Indians. Poverty, unemployment and growing inequalities will increasingly shape the political scene in the country.

The introduction of SEZs is generating huge tensions in society as people prepare to get uprooted from their lives and traditional livelihoods. Even if there is monetary compensation, it is poor compensation for the upheaval involved. How will people react as the over 400 SEZs planned across India slowly find their way into concrete reality? The recent events in Bengal — including the Naxalite hijacking of a train — might be a foretaste of the future.

We have already noted that recent growth in India has a very narrow base in a few lead sectors of the economy. Consensually acceptable

figures indicate that of the 400-550 million employable people in the country only about 1.3 million (well under 1%) are employed in the IT and BPO segments. If one adds up the number of people employed in all parts of the organised private sector (including manufacturing, mining, transport, energy, services) the number of employed people is still under 10 million. Add to this the almost 20 million Indians employed by the public sector (the Indian Railways being the largest employer in the world) and you end up with about 30 million Indians employed in the entire organised sector of the economy.

How do the other 400 or 500 million help their families survive? We already know that over 60% of the workforce remains engaged (more or less unproductively) in agriculture. A little over 10% are employed in the manufacturing sector. The remainder is absorbed by the black hole of the informal service sector, which is growing rapidly in both urban and rural areas.

In other words, since the formal economy, increasingly organised by the State in favour of corporate interests, is unable to offer them jobs they set out on their own and set up small shops if they can or simply hawk their wares on *thelas* or even by hand where they cannot afford one. They are to be found on every street and street-corner of our cities, towns and villages, performing casual construction labour here, small

services like guarding, cleaning, washing and carrying things there. India has become a post-industrial economy without the scale of industrialisation associated with such an economy.

The failure of State policies to create jobs in the formal, organised sector of the economy also explains in good measure the phenomenal growth in the number of independent enterprises in the country. They number a whopping 42 million, according to the Fifth Economic Census of 2005, an almost 20% increase since the last such census in 1998. Not surprisingly, the average number of people employed in each enterprise is 2.35! This data is often seen as a sign of entrepreneurial energy. This interpretation is not incorrect, except that it chooses to overlook the enormous despair and hopelessness that often leads people to fend for themselves.

Can the manufacturing sector generate employment in India?

"...The Indian manufacturing model, in my view, continues to suffer from three major deficiencies — a lack of infrastructure, a low national saving rate (a little over 20%) and anaemic inflows of foreign direct investment (barely $ 4 billion in 2003).

"Of those constraints, the infrastructure gap is the most serious. Not only does it risk crimping the efficiencies of supply-chain management and nationwide delivery capabilities, it also raises serious questions about the transportation requirements of a dynamic export sector.

"Services, by contrast, need none of the above. Moreover, India's new services dynamic plays to some of the nation's greatest strengths — education, entrepreneurial spirit and IT literacy.

"Services also rest on a platform of e-based connectivity — offering an important end-run around a massive physical infrastructure deficiency.

"But I have long felt that there is another glaring shortcoming of India's manufacturing solution — a mistaken impression of its job-creating potential.

"Two of the plant visits I made in Pune drove this point home. First, there was the Bajaj motorcycle factory, a most impressive facility that was using state-of-the-art technology — Japanese robotics enabled with Indian

IT and Japanese production techniques.

"The factory turns out 2.4 million two-wheel vehicles annually with approximately 10,500 workers.

"By contrast, in the mid-1990s, Bajaj needed a workforce of some 24,000 to produce only 1 million vehicles. Then there was Tata Motors — a jewel in the crown of one of India's oldest and greatest companies.

"The vast 510-acre Pune facility felt like an Indian Detroit — complete with a university-like training campus, design, engineering and testing facilities and vertically-integrated production and assembly lines for cars, light and heavy trucks, buses — and, of course, SUVs.

"Yet, the Tata Motors workforce has also shrunk significantly over the past decade as its vehicle output has soared. In early-2004, about 21,000 workers produced 311,500 vehicles, whereas in early-1999, it took some 35,000 workers to produce 129,400 vehicles.

"These examples are indicative of the tough uphill battle India faces in achieving a manufacturing-led solution to its daunting unemployment and poverty problem..."

— Stephen Roach, Chief Economist, Morgan Stanley. 'Dateline India: From Mumbai to Pune', *The Globalist*, October 25, 2004. *(http://www.theglobalist.com/StoryId.aspx?StoryId=4226)*

8
Is the pattern of growth environmentally sustainable?

"India will also have to pay increased attention to its physical environment, such as the availability of the water supply, so that environmental crises do not impede long-term economic growth."

— Nobel Laureate economist Joseph Stiglitz in a recent interview with the *International Herald Tribune. (http://blogs.iht.com/tribtalk/business/globalization/?cat=7)*

Modern economic growth is an environmentally devastating phenomenon everywhere in the world. It disturbs the peace of deserts and forests, mountains and oceans everywhere, uprooting human communities from their traditional habitats in the process. Public consciousness of the environmental challenge is all too recent: less than half-a-century. Some would say that before the Stockholm Conference in 1972, it was virtually non-existent in the world outside the West.

The emerging evidence on global flashpoints like climate change, rapid depletion of freshwater sources and the drying up of non-renewable sources of energy, to name only three deadly threats to human existence, is no longer possible to ignore, even (some would say especially) for a poor country. This has massive implications for

countries like India and China, which have set out on accelerated growth trajectories only recently. If the Kyoto Protocol on climate change gets ratified (as the best informed observers deem virtually a survival imperative for our species) eventually, it is not merely the rich world that will feel the pinch. Rapidly growing poor economies like India and China may be thwarted in their efforts even more. It may well turn out that the environmental crisis provides the binding constraint on growth in this part of the world.

Because of the way economic growth is measured across the world, it fails to take into account both the depletion of natural capital and the output of pollutants. The focus is predominantly on short-run income-generating activity. This growth fetish is particularly accentuated in the context of India at the present point of time. If these two potentially large negatives (resource-depletion and pollution) are included in the computation of GDP, the growth rate may turn out to be far lower than what it is claimed to be.

By measuring something, we indicate that it is important to us. By not taking into account something as important as environmental damage — which may turn out to be decisive after the passage of some time — we endanger our own future. Good policies can only be designed and implemented if the statistical basis for them

is reasonably accurate.

Some economists, like Arun Kumar of Jawaharlal Nehru University, question the very statistical basis of the publicly brandished growth and inflation figures for India. He argues, for instance, that India's growth rate is severely overestimated because, among many other things, it fails to correct for the displacement of traditional areas of economic activity — such as handicrafts — by the growth of organised industry. Likewise, inflation figures are severely underestimated because, among other things, they fail to take into account the inflation in the price of essential services like health, even though services account for well over half of the country's GDP. (See Arun Kumar 'Flawed Macro Statistics', in *Alternative Economic Survey*, India 2005-2006, Daanish Books, 2006.)

A Stern warning

"...The longer global warming is ignored the more intractable it becomes — a point made forcefully last week in a report issued by the British government. Unless the nations of the world come together to control emissions, the report said, we face the risk of "major disruptions to economic and social activity, later in this century and in the next, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century.

"The report's author, Sir Nicholas Stern, the head of Britain's Government Economic Service, is hardly a scaremonger. He combines a strong academic background — Cambridge, Oxford, and the London School of Economics — with practical experience. After the fall of communism in Eastern Europe, he spent six years at the European Bank for Reconstruction and Development. From 2000 through 2003, he was the World Bank's chief economist. Last year, Gordon Brown, the Chancellor of the Exchequer, asked him to examine the economic consequences of climate change and make recommendations for what governments should do about it. The report Stern delivered, at 600 pages, sets a new benchmark for policy discussion.

"The Bush administration and its ideological and corporate allies have downplayed the scientific evidence for global warming while complaining that taking on climate change in a major way would place too great a

burden on the economy. Stern, who came to the subject fresh, dismisses these views. He says, 'Climate change presents very serious global risks, and it demands an urgent global response'.

"At the launch presentation of his report, Stern pointed out that global warming is a textbook case of an 'externality', in which the prices people pay for gasoline, electric power, and other energy products don't reflect their true costs, among them the impact of greenhouse gases. 'Our emissions affect the lives of others,' he explained. ***'When people do not pay for the consequences of their actions, we have market failure. This is the greatest market failure the world has seen.'***

"There are a number of ways to deal with market failures, including taxes, regulation, and compulsory voucher schemes that force corporations and other organisations to pay for the negative side-effects of their activities, such as environmental pollution. Bringing carbon emissions under control is such a mammoth task, Stern says, that all these remedies will be needed. By 2050, for example, at least 60% of global power capacity will have to come from non-carbon sources, such as wind farms, solar cells, and nuclear reactors; at the moment, the proportion is less than 25%. 'Mitigation — taking strong action to reduce emissions — must be viewed as an investment,' the report says. 'If these investments are made wisely, the costs will be manageable, and there will be a wide range of opportunities for growth and development along the way.'

"The figures that Stern and his team of researchers provide should be regarded as best guesses rather than precise forecasts, but they are instructive nonetheless. Stabilising greenhouse gas emissions at somewhat above current levels by 2050 would cost about 1% of the annual global gross domestic product, or about half-a-trillion dollars. That's a lot of money, but it's cheap compared with the costs we will eventually face if we do nothing — between 5% and 20% of annual world GDP, or as much as nine trillion dollars a year. (The GDP of the United States last year was twelve-and-a-half trillion dollars.)" (http://www.newyorker.com/talk/content/articles/061113ta_talk_cassidy)

9
A sobering conclusion

"The West must not make herself a curse to the world by using her power for her own selfish needs."

"In the so-called free countries the majority of the people are not free, they are driven by a minority to a goal which is not even known to them."

— Rabindranath Tagore (1916)

To return to the original question asked in this essay: To what extent are the goals of global capitalism compatible with the aim of ending hunger and poverty?

The answer is quite clear: a glance at the evidence that has gathered over the past decade-and-a-half of economic reforms in India indicates that globalisation and the resulting growth is one thing, development quite another. Global capital — which may be Indian — is compelled to play by rules of the game that are quite unmindful of the needs of ordinary citizens. It is interested not so much in the growth and development of the country as in the growth of corporations. (One worker manning 27 machines is not what the country needs even if it brings profit to an Indian company.) Any benefits to the nation are purely incidental and not by design. The chances of developmental failure are far from small.

Was Keynes a madman?

Practical genius is as rare among professional economists as eyesight in a school for the blind. John Maynard Keynes was one of the few who could diagnose accurately the potentially fatal economic ailments of the Great Depression that gripped the Western world in the 1930s. It was the acceptance of his recommendations of active government intervention — through large amounts of public spending — that saved capitalism from almost certain destruction. Had prevailing free market orthodoxy been accepted, it is unlikely that the system would have survived.

Keynes was a realist and learnt much from the experience of the Depression. In particular, he became extremely wary of large financial transactions across international boundaries. Foreseeing some of the problems that the future might bring, here is what Keynes recommended in 1933, two generations before modern globalisation was launched:

"I sympathise therefore with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel, these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible. And above all, let finance be primarily national." (http://www.globalpolicy.org/socecon/bwiwto/critics/1994/94protect.htm)

The narrow base of economic growth has meant that trickle-down theories of the spread of prosperity have remained confined to the sphere of illusion. The persistence of widespread hunger, malnutrition, poverty and unemployment reminds one of the economist-diplomat John Kenneth Galbraith's acerbic observation that faith in trickle-down is a bit like feeding racehorses superior oats so that starving sparrows can forage in their dung.

When growth is being touted as the great Indian success, it is well worth asking what it is that grows. Of course the claim is that it is the output of the economy. But as argued earlier there are large and significant oversights in the data, apart from questions of sustainability, which should disturb any reasonable observer.

What grows with the style of growth that has been adopted in India is also inequality, inflation, unemployment, the size of real estate and financial bubbles, environmental degradation, social unease, crime and violence, not to forget disease. (India has become one of the world's largest traders in toxic waste.) The rate of growth of employment (far more important than the mere rate of growth) has remained far too low to give any comfort to ordinary citizens. Most people would be far happier if the growth rate was halved and the rate of growth of employment was doubled. This is no pipedream. It may,

after all, turn out to be the way of the future.

Around 700-750 million Indians — about two-thirds of the total — live in the countryside, the vast majority of them supported directly or indirectly by agriculture. Of these, an estimated 280-300 million are of working age. If agriculture is increasingly an unviable economic proposition, as government officials and politicians are themselves trying to convince us, where are people going to find work? Census data indicates that, over the next decade, up to 90 million young Indians will be joining the workforce. Where are they going to work? The informal sector too has its limits. It would thus be most surprising if the energy of youth does not spill over into the perversion of violence.

A whole new policy framework is needed for development which pays long overdue attention to agriculture and the environment, because 'development by default', as the fruition of trickle-down economics, has long been a vacuous claim. (See, for instance, Mihir Shah, 'The Killing Fields of 21st Century India', *The Hindu*, December 18, 2006. *http://www.hindu.com/2006/12/18/stories/2006121803471000.htm.*)

We are a free country. We are not under oath to have to follow policies of energy and resource-intensive economic growth and repeat

all the blunders committed by the Western nations. There are other policy alternatives today, just like there were in 1991, when the Indian economy was first opened up. They involve, for instance, evolving a whole new strategy for supporting and strengthening the rural, still largely agricultural, economy. The National Rural Employment Guarantee Scheme (NREGS) is just one starting point for such a "reform of the reforms". However, midway through the UPA government's five-year term in office, there are few signs that it has truly taken off, even though it was launched in 200 districts in February 2006. When there is so little time to waste, the UPA government has been dragging its feet on the key election promise in its Common Minimum Programme for the 2004 elections.

In countries like India, given the elite-driven growth imperatives of the economy, socio-economic injustice and environmental degradation are two sides of the same coin. When ecosystems are devastated by economic activity, local communities suffer most from the ensuing pollution and loss of access to resources, while beneficiaries live far from the scene of action. Given the peculiarity of its necessities and challenges, India could take the global lead in setting an example for an entirely novel form of environmental democracy.

This would achieve many major goals of policy in the country. First,

through programmes like the NREGS, not only will unemployment and underemployment (together running into at least tens of millions of people if not hundreds) be drastically reduced, longstanding environmental challenges like watershed management, soil conservation and afforestation could be met. Besides, the income that such programmes will put in the hands of the poor will generate effective demand to stimulate further growth in the larger economy. As of now, as noted earlier, demand can easily get choked off because the gains of growth are so narrowly and poorly distributed.

Environmental participatory democracy is also an imperative, because saving our species from ecological crises in the future will necessarily involve decentralised decision-making by locally rooted communities with a lasting stake in the quality of the natural environment around them. It is not something which can be left with any wisdom in the hands of private investors in corporate boardrooms (or ill-informed bureaucrats in government ones) who take a short-term, instrumental and commodified view of all nature, using it for purposes of production, profit-making, and resource-intensive economic growth, eschewing all democratic practices and concern for, among others, affected communities and future generations of humanity.

The question that begs to be asked is: Will policymakers perceive and grab such a unique opportunity not only to face the environmental challenge but to heal the age-old, rapidly widening and potentially explosive rift between India and Bharat?

The end of poverty? It's not so simple!

"Both China and India are still desperately poor countries. Of the total of 2.3 billion people in these two countries, nearly 1.5 billion earn less than US$ 2 a day, according to World Bank calculations. Of course, the lifting of hundreds of millions of people above poverty in China has been historic. Thanks to repeated assertions in the international financial press, conventional wisdom now suggests that globalisation is responsible for this feat. Yet a substantial part of China's decline in poverty since 1980 already happened by the mid-1980s (largely as a result of agricultural growth), before the big strides in foreign trade and investment in the 1990s. Assertions about Indian poverty reduction primarily through trade liberalisation are even shakier. In the '90s, the decade of major trade liberalisation, the rate of decline in poverty by some aggregative estimates has, if anything, slowed down. In any case, India is as yet a minor player in world trade, contributing less than 1% of world exports. (China's share is about 6%.)

"What about the hordes of Indian software engineers, call centre operators, and back-room programmers supposedly hollowing out white-collar jobs in rich countries? The total number of workers in all possible forms of IT-related jobs in India comes to less than a million workers — one-quarter of 1% of the Indian labour force. For all its Nobel Prizes and brilliant scholars and professionals, India is the largest single-country

contributor to the pool of illiterate people in the world. Lifting them out of poverty and dead-end menial jobs will remain a Herculean task for decades to come."

— Pranab Bardhan, Professor of Economics at the University of California, Berkeley, and Chief Editor of the *Journal of Development Economics (http://yaleglobal.yale.edu/display.article?id=6407)*

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