

**Second Professor Atul Goswami Memorial Lecture**

**THE CRISIS IN INDIA'S COUNTRYSIDE**

**PRABHAT PATNAIK**

July 26, 2006

Omeo Kumar Das Institute of Social Change and Development  
Guwahati  
&  
North East Economic Association (NEEA)

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## PREFACE

This Lecture Series was started in 2005 to commemorate Late Professor Atul Goswami who was the Director of the Institute from 1994 to 2000. The idea behind this has been to initiate a discussion on issues of contemporary economy among the intelligentsia as a mark of loving memory and remembrance of Late Professor Goswami who himself was a highly respected economist of the region. The First Lecture in the Series was delivered by Professor Atul Sarma, former Director of the Indian Statistical Institute, New Delhi and the then Vice-Chancellor of Arunachal (now Rajiv Gandhi) University.

Professor Prabhat Patnaik who needs no introduction has agreed to deliver the Second in the Series. Professor Patnaik, with his usual persuasiveness and academic rigor is talking about the much celebrated notion of neo-liberal economic reforms and about the myths created by such euphoria. He is effectively portraying the crisis the Indian countryside is currently facing. He argues that the crisis of the Indian countryside is intimately linked to the neo-liberal policies and that it cannot be overcome within a neo-liberal regime, and consequently, "liberalization with a human face" is a chimera.

I take this opportunity to thank Professor Patnaik for kindly taking time out from his busy schedule to deliver the Lecture and hope that this will make an intriguingly pleasant reading. I also thank North East Economic Association (NEEA) for their cooperation in holding this Lecture.

**Indranee Dutta**  
Professor and Director  
OKD Institute of Social Change and Development  
Guwahati

## THE CRISIS IN INDIA'S COUNTRYSIDE

There is a pervasive impression created by media and government circles, both Indian and foreign, that the Indian economy has performed remarkably well since the inception of neo-liberal policies. The growth rate of the gross domestic product has reached impressive levels, next only to China's; the poverty ratio has come down markedly and the country is in the process of emerging as a major economic power in the world. Indeed the "India shining" slogan, though coined by the BJP and *for that reason* overtly shunned by many, is nonetheless surreptitiously subscribed to by a substantial segment of the middle classes and even intelligentsia, within India, and of course abroad.

Ironically however, while the country has been made to celebrate the apparently impressive GDP growth rates, with the promise that they would become even more impressive with the ushering in of further "reforms", the Indian countryside where the bulk of its people live has witnessed a crisis unparalleled since independence and reminiscent only of the agrarian crisis of the pre-war and war years.

A simple calculation is instructive in this context. Let us ask ourselves the question: how much has the command over a specific bundle of goods, by an average person belonging to the "agriculture-dependent population", increased over the last decade? As our "benchmark" bundle of goods, let us take that bundle which is actually supposed to be consumed by the average industrial worker according to official statistics. It turns out that *between 1994-5 and 2003-4, the per capita command over this bundle of goods by the agriculture-dependent population increased by only 5 percent in absolute terms, which amounts to virtual stagnation.*<sup>1</sup> In other words, precisely during the period when per capita real income for the country as a whole was supposed to have been growing at a rate well in excess of 4 percent per annum on average, a vast majority of its population, almost 60 percent of it,

was witnessing a virtual stagnation in its per capita real income, as measured by the amount of a specific bundle of goods commanded.

Things were actually even worse for this segment of the population. Its virtually stagnant per capita command over "private goods" was accompanied not just by growing economic insecurity (for reasons discussed later), but also by a decline in the quality of the public services provided to it. The decline of public health facilities in rural areas, the decline in public education facilities in rural areas, the worsening state of rural infrastructure, and the progressive reduction in the availability of electricity in the countryside, are all well-attested phenomena of this period<sup>2</sup>. Together with the increase in economic insecurity, they entailed not just a stagnation but perhaps even a decline in the average living standard of the agriculture-dependent population. All this moreover refers to the average. The condition of the rural poor must have actually become worse in absolute terms during this period.

## II

Confirmation of this fact comes from food absorption data<sup>3</sup>. Foodgrain absorption is defined here as net output plus net imports minus net increases in government stocks (we have little information about changes in private stocks but these would not alter the conclusions below). Per capita foodgrain absorption *for the country as a whole* for the triennium ending 2002-03 was 155.7 kg. per annum which was lower than the figure for 1933-38 for British India (159.3 kg.). Lest it be thought that this is just a quirky result arising from the inclusion of 2002-3 which was a drought year (and happens to be the latest year for which we have data), it is worth emphasizing that the per capita absorption in 2002-3 was *higher* than in the two previous years owing to the larger scale of the public works programmes precisely because of the drought. The inescapable conclusion emerges that *the per capita absorption of foodgrains in India as a whole was lower at the beginning of the twenty-first century than in British India on the eve of the second world war.*

The full story about foodgrain absorption is worth recounting. Per capita foodgrain absorption in British India which was 199 kg. at the beginning of the twentieth century (1897-1902) declined to around 148.5 kg. on average during 1939-44 and 136.8 during 1945-6. That was the legacy left by colonial rule at the time of independence. With tremendous effort, on the part

of the now much-reviled *dirigiste* regime in the post-independence period, that figure was raised to 177.0 kg. by 1991-2, a significant turnaround no doubt, but not yet to the level prevailing at the beginning of the twentieth century. The liberalization period has witnessed a reversal of this increase, moderate at first but dramatic in the late nineties and early this century, to levels prevailing in the late thirties.

These figures moreover relate to the country as a whole. Clearly the situation in the countryside is much worse than what even these average figures indicate. Direct evidence for this comes from per capita calorie intake data. Data on the average daily calorie intake from all foods suggest a decline over successive NSS rounds in rural India, from 2309 in 1983 to 2285 in 1987-88, to 2157 in 1993-4, to 2011 in 1998 (the 1999-00 data are not comparable with the earlier rounds). This represents a 13 percent drop between 1983 and 1998 and a 12 percent decline between 1987-8 and 1998. (The decline for urban India between 1983 and 1998, by contrast, was just 1.5 percent). This dismal picture is confirmed by another set of statistics: as many as six states in the country in 1999-2000 had more than 30 percent of the rural population with a daily calorie intake of less than 1800 (which the FAO considers to be the bare minimum), compared to only three states in 1983. In short, hunger and malnutrition stalk rural India as never before at the end of a decade of "India shining".

The official claims of declining rural poverty in this context are simply bizarre. Poverty in India has always been *defined* with respect to a calorie norm. There are therefore two different ways of estimating poverty, directly from the calorie intake data thrown up by the NSS, or indirectly, by looking at the level of expenditure at which the calorie norm was fulfilled in the base year and then bringing that base "poverty line" forward through a price index. Now, as long as the price index is adequate, the indirect method, though obviously inferior to the direct one given the definition of poverty, should nonetheless be quite adequate. Unfortunately the price index used, viz. the Consumer Price Index for Agricultural Labourers, precludes a whole lot of items, such as healthcare, whose effective prices have gone up sharply in recent years. Not surprisingly therefore the "poverty line" is now placed at the absurd figure of Rs.12 per day. An amount that would barely purchase a single cauliflower in the market is supposed to cover all the daily expenditure requirements of a borderline non-poor person! The much-hyped "declining poverty ratio" is derived from such absurd estimates of "poverty-line". *If we make a direct estimate of poverty on the basis of the calorie*

norm, then in 1999-2000 at least 75 percent of the rural population in India would come under this category, which is an increase compared to the base year (1973-74) figure of 56 percent<sup>4</sup> (U.Patnaik 2005).

Faced with such statistics, adherents of the "India shining" view often argue as follows. There is a shift away from food grain consumption among all expenditure classes in rural India which merely suggests that foodgrains are an "inferior good" (the demand for which declines as income rises). The decline in food grain absorption per capita therefore, far from being an indicator of a *worsening* condition of the rural population, actually indicates an *improvement* in people's living standards. (To this is often added the argument that with mechanization and the consequent decline in the magnitude of arduous manual work, the need for calories goes down and people can afford to diversify their consumption pattern, which again is a sign of greater well-being).

The problem with this argument is that it refers to NSS data for *direct* consumption of food grains. But all cross-section data, whether across countries or across states within India or across expenditure classes, show that per capita food grain consumption is *positively related* to the level of per capita income, i.e. the better off consume more food grains per capita, *provided we take both direct and indirect consumption (through animal feed and processed foods) into account*. The per capita absorption data for India which were cited above, since they refer to *total absorption* in all forms, should not therefore show a decline, unless people were becoming worse off.

No doubt, the per capita food grain absorption figure fluctuates a great deal from one year to the next. Even in the past, during the *dirigiste* period, there were years when the per capita foodgrain absorption would decline markedly, such as during the mid-sixties. What is striking about the current situation however is the following: first, we are witnessing a secular trend of decline, not confined to one or two years, but spanning, by now, a whole decade; and secondly, unlike in the mid-sixties, the reduction in per capita foodgrain absorption is not because of supply shortages but because of insufficient demand owing to lack of purchasing power in the hands, especially, of the rural population. To be sure, per capita foodgrain output too has been declining during these very years of "India shining": indeed the nineties are the first decade since independence over which per capita foodgrain output has actually declined. But the drop in per capita absorp-

tion has been even sharper, which resulted in a situation where the level of foodgrain stocks with the government, apart from being well above the government's "norm" (barring a couple of years in the early nineties), kept increasing through the decade right until July 2002 when it reached 63 million tones, a full 42 million tones above the "norm". Drought relief expenditure, and exports at throwaway prices (even below those charged to the BPL population) brought it down subsequently and tsunami-relief has kept it down, but it will start climbing again unless the shortage of purchasing power is overcome<sup>5</sup>. Thus the basic point stands: the decline in per capita foodgrain absorption discussed above has been associated not with supply shortages but with insufficient purchasing power.

It is in this sense that the current crisis is unprecedented in independent India: *for the first time we are having not a shortage of food grains or of agricultural goods generally but a plethora of them, and this notwithstanding poor output performance*. Or putting the matter differently, poor agricultural output performance, instead of creating shortages and increasing agricultural prices and terms of trade, has actually been accompanied by burgeoning excess stocks, reduced prices and worsening terms of trade, to a point where the agriculture-dependent population could on average be even worse off today than a decade ago. The crisis in short is a crisis arising from a compression of money earnings in the countryside, notably of the agriculture-dependent population.

Faced with such facts, the temptation is to fall back on two propositions, which, though significant truisms, do not constitute explanations. The first suggests that the growth rate figures are spurious<sup>6</sup>. This is certainly true. Apart from statistical fiddles which are well documented, the very concept of GDP whose growth rate is the point at issue is itself a spurious concept. Since it includes the tertiary sector, whose "output" can not be independently identified and where therefore the incomes of those engaged are simply taken as "output", the GDP concept is intrinsically incapable of distinguishing between the *production* of the economy and the *transfers* between persons within the economy<sup>7</sup>. (Incidentally even the "Human Development Index" which is based *inter alia* on per capita GDP is tainted by the conceptual and statistical problems involved in GDP estimation).

The second proposition states that the benefits of the growth which has occurred have been unequally distributed across the population, with the rural segment constituting the relatively deprived component; there is also

usually an underlying suggestion that the government's economic policies can and should be accompanied by specific measures promoting a more egalitarian distribution of the fruits of growth, that "liberalization" should be combined with a "human face". While growing inequality is a truism, it is no explanation. Why should inequalities suddenly increase so dramatically that sixty percent of the population has on average an unchanged real income even when India allegedly has been "shining"? I wish to argue that the crisis of the countryside is intimately linked to the neo-liberal policies themselves, that it cannot be overcome within a neo-liberal regime, and that, consequently, "liberalization with a human face" is a chimera.

### III

The neo-liberal regime has affected the rural economy in a number of ways. The first is through the progressive removal of the insulation of the domestic agricultural prices from world market prices. Quantitative restrictions on agricultural imports had to be removed under the WTO by 2003, but the Indian government removed them by 2001. The actual tariffs on a range of commodities have been much lower than even the "tariff bounds" that India is entitled to. In short, not only did a regime of greater "openness" of domestic agricultural prices to the world market prices get institutionalized under the WTO, but the Indian government avoided making full use of whatever protection was permissible even under the WTO. In addition, the government started winding down State intervention in the domestic market for agricultural produce: in plantation crops, the government Boards that used to make purchases from the producers were made virtually defunct and the producers were left to the mercy of the Multinational Corporations whose agents typically offer them only a small fraction of even the world price; and in food grains where the system of government procurement at pre-announced prices continues to remain as official policy, the vigour and timeliness of the actual procurement effort has declined and ways of dismantling the procurement framework are currently under government consideration.

While all these developments have contributed towards making the peasantry vulnerable to world market price fluctuations, *there has been an actual secular downtrend in the agricultural commodity prices in the world market from 1995 onwards*<sup>8</sup>. This has had its impact on the Indian producers.

At the same time there has been an upward thrust in the input prices for the peasantry, once again as a fall-out of the neo-liberal regime. With the drying up of institutional credit for agriculture, whose increase, brought about through State directive, was one of the major achievements of Bank Nationalization, the agricultural sector has increasingly turned to money lenders and traders for loans, where the interest rates have been exorbitant. With "power sector reforms", the cost of power for the peasantry has gone up substantially in several states. Diesel prices have gone up significantly, together with other petro-product prices, even before the latest global oil price increase. With fertilizer subsidies being curtailed, the cost of fertilizers has increased. And with the dwindling of government research effort on seed varieties, and the progressive withdrawal of government extension services, the peasantry has been increasingly left to interact in a direct and unmediated manner with the representatives of Multinational Seed Corporations which charge exorbitant prices for seed varieties producing dubious results. In short, the withdrawal of the State from its supporting role in the agricultural sector, the entry of MNCs which have unmediated access to gullible peasants, and the exposure to world market prices, and that too at a time when these prices have been falling secularly, have combined to make peasant and petty capitalist agriculture unviable, to reduce the growth rate of output in agricultural sector (in which of course other contributory factors like decline in public investment have also played their part, but on these more later), and to keep down the real living standards of the agriculture-dependent population.

There has simultaneously been a drastic decline in government expenditure in the countryside which has contributed not only to a crisis of rural infrastructure but also to the squeeze in the purchasing power in the hands of the rural poor that underlies the decline in per capita food absorption mentioned earlier. *All economies implementing a neo-liberal policy package witness a decline in their tax-GDP ratio, and India is no exception*<sup>9</sup>. *In addition since such a package necessarily entails a reduction in the size of the fiscal deficit, for which India now has even a legislation in place (the FRBM Act<sup>10</sup>), and an increase in the real interest rate on government debt (compared to the dirigiste period), a reduction in the government's spending ability is an inevitable denouement of neo-liberalism.* The area where this is most acutely felt is rural development expenditure. Rural Development Expenditure (meaning actual plan outlays by the Centre, States and Union Territories, taken together, under five heads: agriculture, rural development, village and small scale industry, irrigation and flood control, and special area programme) as

a proportion of NNP at factor cost has gone down from 3.8 percent over 1985-90 (average) to 1.9 percent in 2000-01; if we include infrastructure (energy, transport and communication) in addition (though only a part of it is spent in rural areas) the figures are 11.1 and 5.8 respectively<sup>11</sup>. This is deflation of a pretty acute nature. Its consequence by way of arresting the growth potential is obvious. But it also has a demand-side effect which is less appreciated.

Rural development expenditure injects purchasing power into the countryside and creates multiplier effects. A view is often expressed that since much of it, supposed to reach the poor, actually leaks out into the pockets of the rural rich, it constitutes a waste worth curtailing. But this is erroneous, since it misses the significance of the multiplier effects. Just as "digging holes in the ground and filling them up" in the midst of a Depression, though apparently wasteful, can, as Keynes argued, generate employment and enlarge the output of useful goods through the multiplier effect, likewise even the siphoning of funds meant for the poor by the rural rich, though obviously undesirable, has multiplier effects in the countryside and enlarges rural employment. While the case for preventing such leakage is unexceptionable, curtailing rural development expenditure on account of such leakage is positively undesirable. The cut in rural development expenditure has been a major factor behind the stagnation of rural employment (which grew at an abysmal 0.6 percent per annum between the two large NSS rounds of 1993-94 and 1999-00, well below the rate of growth of rural population), and the increase in the rural unemployment rate (Current Daily Status between these two rounds).

An idea of the drastic nature of the expenditure deflation under merely the six heads mentioned above can be had from the fact that if the same proportion of this expenditure to NNP at factor cost, had obtained in 2001 as the average for the eighth plan, then an additional sum of Rs.56, 000 crores would have been spent in 2001, a large chunk of it in the countryside. The employment generating impact of this additional expenditure, both directly and indirectly, would have been considerable, which in turn would have raised foodgrain absorption.

Deflation however meant growing unemployment, shrinking purchasing power and unabsorbed food grain stocks in the midst of mounting hunger. If the government in such a situation of accumulating food stocks (and the exist

ence of pervasive unutilized industrial capacity, including in the public sector) had increased rural expenditure, say on employment programmes, and financed it through a fiscal deficit, it would have got "something for nothing". There would have been no inflation; and not even much net increase in the government's deficit, since much of the extra demand generated would have come back to the Food Corporation of India and other public sector units (so that what the government's right hand borrowed would have come back to its left hand). At the same time hunger and malnutrition would have decreased, the mounting food stocks whose storage was a major concern would have come down, employment would have increased, and, if the programmes were suitably designed, there would have been increased rural infrastructure; in addition there would have been intangible benefits in terms of people's empowerment.

But this did not happen. Even with 63 million tonnes of unsold stocks and huge unutilized industrial capacity (and substantial foreign exchange reserves built up to a large extent from "hot money" inflows), the IMF and the World Bank kept advising the government to *cut down* the fiscal deficit. The stocks became so large and unmanageable that the government exported 22 million tonnes out of these stocks, at prices below those charged to the "Below Poverty Line" population. These were bought up in advanced economies to feed cattle and pigs! The poor in India were starved to feed animals in the metropolis, not because the government was wilfully malicious, but because it fell victim to what Professor Joan Robinson has called the "humbug of finance", i.e. the erroneous view that a fiscal deficit must always be avoided no matter what the circumstances<sup>12</sup>. And it did so not out of any *penchant* for such "humbug" *per se* but because of the logic of a neo-liberal regime where the caprices of globalized finance capital, often expressed through the Fund and the Bank, must be obeyed, for fear that otherwise the country would be shunned by speculators and face financial insolvency within a liberalized framework. Let us therefore turn now to the substantial question of the changing class relationships underlying the crisis in the countryside.

#### IV

The current drive towards globalization is based on a convergence of interests of several different powerful actors: the domestic bourgeoisie coming face to face with the *cul-de-sac* to which the *dirigiste* strategy of the earlier period had led; the MNCs in quest of third world markets, third world assets

(including in particular public sector enterprises) and third world resources, especially mineral resources, over which they had lost control in the wake of decolonization; and internationally mobile finance which seeks to remove all barriers to its global movement and flit about from country to country in quest of speculative gains. In fact, it is not merely a question of convergence of interests between three distinct actors. The actors themselves have become increasingly indistinct from one another, with all of them in varying degrees engaging in speculative financial activities across the globe. It is this increasingly composite entity, driven of course by globalized finance, that should be recognized as constituting the main force behind the current phase of globalization<sup>13</sup>.

Finance Capital is always opposed to State intervention in demand management, not to mention participation by the State in production and investment activities. The reasons for this lie partly in the fear that high level of activity would cause inflation to the detriment of finance, partly in the gains to be made by acquiring State sector assets via the process of "disinvestment" by the State, and partly in the ideological fear that State activism in matters of production and investment would undermine the social legitimacy of capital, especially of that segment of capital, namely finance capital, which is controlled by what Keynes had called "functionless investors". Not surprisingly, Keynes who argued the need for State intervention in demand management also advocated the "euthanasia of the rentier"<sup>14</sup>. This opposition of finance capital acquires a spontaneous effectiveness when the State is a nation-State while the finance capital is international finance capital, which is also why Keynes was particular that "finance ... must remain national". The institution of a neo-liberal regime therefore entails a country's passing under the hegemony of international finance capital. What we have called so far the impact of neo-liberal policies on the countryside constitute in effect the impact of the hegemony of international finance capital. And my argument is that such hegemony necessarily entails a crisis in the countryside.

This happens in two ways: the expenditure deflation imposed upon the third world nation-State and the withdrawal, forced upon it, from its supporting role towards agriculture, hit this sector hard since it cannot do without State support. In addition, the fact that such expenditure deflation is simultaneously imposed upon all nation-States, creates a state of relative stagnation in global capitalism which impacts adversely on agricultural prices in the world market precisely when domestic agricultural sectors are being

"opened up" to the world market. The crisis in the countryside therefore is a necessary accompaniment of the hegemony of international finance capital, a hegemony that is exercised on each country via the collaboration of large segments of its own bourgeoisie. While we have been concerned here exclusively with the crisis in the Indian countryside, similar crises are manifesting themselves in many other countries.

Two implications of this need to be noted. The first is the "inversion" in the role of the bourgeoisie. From providing leadership to the forces ranged against colonialism, forces which included the workers and peasants and which were brought together on the basis of a programme that constituted an implicit social contract, it now makes a complete about-turn and collaborates, in the new situation, with international finance capital and connives in the unleashing of a crisis in its own countryside. From the camp of anti-imperialism it goes over to the opposite side. From adherence, no matter in how distorted or diluted a form, to the implicit social contract underlying the formation of the nation, it goes over to a jettisoning of the social contract<sup>15</sup>. But such a jettisoning amounts at the same time to a fracturing of the nation. The nation may, and will no doubt, be recreated anew on a different basis, but meanwhile it faces the ominous consequences of that fracturing, in the form of communal, and ethnic strife. The bourgeoisie, essaying in effect a secession from the nation, may not be averse to the fracturing that arises as a consequence, since such fracturing lowers the resistance to its secession and indeed smoothes the way for it: communal and ethnic strife within the country appears to strengthen the case for closer integration with the advanced capitalist world which presents itself as representing "progress", "modernity" and "civilized values". But this only sets the stage for an expanded reproduction of the cycle of collaboration and strife.

*The second implication is for democracy. In a reasonably vibrant democracy like India, where the poor participate vigorously in the electoral process, a regime hegemonized by international finance capital, which produces, as a concomitant of such hegemony, a crisis in the countryside, is difficult to sustain. The ruling class- forces therefore develop a number of instruments for the attenuation of democracy. These range from placing economic decision-making outside the purview of the political process (e.g. FRBM Act, the attempt to make the Central Bank "autonomous"); to the introduction of capital account liberalization whose spontaneous effect is to keep the threat of capital flight hanging like a Damocles sword over all governments and hence extracting from them professions of "commitment to reforms" (a*

euphemism for acquiescing in the hegemony of international finance capital); to straightforward coercion exercised by the U.S. as the leading capitalist power, over elected governments that happen to be intransigent; to restrictions on the right to dissent which are sought to be justified precisely by the strife that such a regime engenders; to the use of the judiciary, an organ of the State that is completely non-accountable to the people and hence can take positions favoured by the urban middle class with impunity, for curbing the people's right to resist and intervene (e.g. the Supreme Court ruling against strikes) and for usurping a position superior to the other organs.

The ruling classes' attempt to attenuate democracy is helped greatly by the emergence of "communal fascism"<sup>16</sup>, as a fall-out of the fracturing of the nation mentioned earlier. Of course, while we have focused on rural distress in this paper, this is not the only kind of distress caused by the pursuit of neo-liberal policies. Indeed the crisis of the peasantry is part of a pervasive crisis facing petty and small capitalist production in general owing to the combined effects of government expenditure deflation and import liberalization, and this entails an increase in urban unemployment as well. Unemployment is always conducive to the growth of fascism, and this has been the case in India as well where the *Hindutva* forces have of late acquired political prominence. While India is far from witnessing the emergence of a fascist State, "communal fascism" in India has the effect *inter alia* of shifting the discourse away from neo-liberal policies *and the attenuation of democracy implicit in such policies* (such as curbs on the right to protest, resist and resort to strike action). It creates a situation where political choice gets restricted to two formations, one led by the communal fascist elements and the other by liberal bourgeois elements, *both of which swear by neo-liberal policies*; and the forces opposed to such policies get squeezed between the two. "Communal fascism", to use Kalecki's (1972) metaphor, is like a "dog on a leash". It gets occasionally unleashed, and precisely for that reason, whether leashed or unleashed, it becomes the focus of attention, ensuring that the resistance against neo-liberal policies remains subdued.

In India, certain overt attempts to attenuate democracy, through measures such as the introduction of a Presidential form of government, which were tried by the NDA government, failed miserably. But the fact that against the backdrop of the crisis in the countryside the democratic space enjoyed by the people has become an area of struggle, can scarcely be disputed.

The playing out of these processes must concern anyone interested in the building of a humane society in India. Such a person cannot remain indifferent to the phenomenon of the crisis in the countryside. The fact that the proponents of neo-liberal policies, which include the media, government agencies and several intellectuals, have remained silent on the crisis in the countryside while celebrating supposedly high growth rates of the economy, is a matter for concern.

#### Notes:

<sup>1</sup> The method of calculation is as follows. We take the income of the agricultural sector in current prices, as measured by the CSO data on net domestic product at factor cost, in 1994-95 and in 2003-04. By applying, to the figure for the total rural population, the ratio of the agricultural work-force ("Usual Status") to the total rural work-force ("Usual Status"), as given by the National Sample Survey data for 1993-4 and 1999-0, we get an estimate of the "agriculture-dependent population" for 1993-4 and 1999-0. By assuming that the average rate of growth exhibited over this period in the size of the "agriculture-dependent population" holds uniformly within the period and also afterwards, we estimate the "agriculture-dependent population" for 1994-5 and 2003-4. The income of the agricultural sector divided by the agriculture-dependent population gives us the per capita income of the agriculture-dependent population for these two years in current prices. This, when deflated by the consumer price index for industrial workers (1993-4 base), gives the figure quoted above, namely a minuscule rise of 5 percent over the 9-year period.

<sup>2</sup> On the decline in public health facilities in rural India see Mohan Rao(2005); on the decline in public education facilities see Praveen Jha (2005).

<sup>3</sup> The discussion which follows is based on the work of Utsa Patnaik (2003).

<sup>4</sup> The base year figure is from the Planning Commission. For 1999-2000 there was a change in the NSS questionnaire because of which it is generally accepted that the actual picture of poverty is worse than the NSS figures suggest. The figure 75 percent refers to what the *unadjusted* NSS data show. The actual picture is likely to be worse. The figure for 1993-94 however comes to 75 percent according to the direct estimate.

<sup>5</sup> The cumulative impact of government policies to get rid of stocks has resulted in a plummeting of wheat stocks which are expected to reach 1.5 million tones by April 1, 2006, against the "norm" of 4 million tones for that date. Rice stocks however are expected to exceed the "norm". The low level of wheat stocks has prompted the government to import 0.5 million tones of wheat even before *rabi* procurement begins in 2006. This immediate wheat shortage however does not obviously negate the basic argument about the crisis being caused by insufficient purchasing power.

<sup>6</sup> Yet, this concept has been put to such use in promoting "India shining" and in arguing for further "reforms" that one could justifiably say, echoing Marx's words, that criticism of the concept of the GDP growth rate constitutes the premise for all criticism, in development economics today.

<sup>7</sup> An illustration of this point is provided by the fact that GDP went up almost overnight when the fifth Pay Commission's award was implemented.

<sup>8</sup> Even though there has been some recovery of commodity prices after 2002-03, these prices at the end of 2005 were still lower than in 1995. With 1995 as base, the index for agricultural raw materials was 80.6 in 2002-03, and 82.1 in 2003-04, 85.7 in 2004-05, and 92.6 in December 2005. The corresponding figures for food products were 83.8, 89.6, 97.8 and 98.1 (Source: Reserve Bank of India 2006).

<sup>9</sup>This is why the frequently heard defence of neo-liberal economic policies that they allow the government to concentrate all the better on social sectors, and improve the quality and quantity of these sectors' services, by withdrawing from other sectors where government presence is unnecessary, is untenable. Neo-liberal policies bring about not a *redeployment* of the government's engagement with the economy from one set of areas to others, but a rolling back of the government's engagement and a change in the government's role to one of being a promoter of private, especially metropolitan, capital.

<sup>10</sup> FRBM Act is the Fiscal Responsibility and Budgetary Management Act.

<sup>11</sup> Computed from Government of India (2005).

<sup>12</sup> Joan Robinson (1962); see also Patnaik (2003).

<sup>13</sup> For a discussion of the main features of this entity called international finance capital, and of the differences between this capital and the one that Lenin and Hilferding had written about, see Patnaik (2003).

<sup>14</sup> See Keynes (1936), Chapter 19.

<sup>15</sup> The role of the State in supporting the peasantry, it should be noted, had been conceived as a consequence of the actual experience of the Great Depression. If that experience had created the condition for the peasantry's joining the freedom struggle, the promise that the new State of an independent India would prevent the recurrence of such experience had made the peasantry actually join the struggle in large numbers. Any recreation of that experience therefore amounts to the breaching of an implicit social contract.

<sup>16</sup> The term "Communal Fascism" has been used by many authors including Amartya Sen (1993) to describe the recently observed phenomenon of Right-wing militant *Hindutva*.

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