CAPITALIST DEVELOPMENT AND THE INDIAN SOCIETY

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Karl Marx's remark about capitalism creating the agency for its own transcendence, namely the proletariat, was rooted in the reality of classical capitalist development. But on how this reality itself had come into being there is a significant misunderstanding.

The usual view is that capitalism first undermines the previous mode of production, and uproots a large segment of the working population engaged in it which is thrown into the ranks of the reserve army of labour. But after a lapse of time it progressively employs the bulk of the uprooted population, leaving only a certain relatively small fraction of the total working population as a reserve army of labour.

This perception underlies the famous debate on poverty and the Industrial Revolution in Britain between Eric Hobsbawm and Max Hartwell. While Hartwell rejected altogether the idea of any increase in poverty in early nineteenth century, even Eric Hobsbawm's claim about the increase in poverty following early Industrial Revolution was tempered by the implicit concession that it subsequently came down because of the absorption, into the ranks of the active army of labour under industrial capitalism, of the bulk of those who had been thrown out of work in the early years of the Industrial Revolution.

And the same perception, of capitalism producing a painful but only a necessarily transient period of uprooting of pre-capitalist producers also underlies Amartya Sen's remark that the building of London and Manchester could not have been effected without throwing people off their lands. The implicit suggestion is that those people or their descendants overcame eventually the travails of such uprooting because of the inherent nature of capitalist development itself.

In short, two propositions have found wide acceptance: first, that the destruction of the old mode of production has merely meant, historically, a transfer of the working population previously engaged by it largely into the active army of workers for capitalism, and only marginally into the reserve army; and second, that such a *denouement* is a result of the working of capitalism itself, a product of its own immanent tendency, whence it follows that the same process will replicate itself in India as well.

This understanding however is wrong. There were three very specific factors that operated under classical capitalism to effect an alleviation of the misery of the uprooted pre-capitalist producers and none of these three is possible today. The first, and most important, is large-scale migration from Europe to the temperate regions of white settlement. Arthur Lewis estimates the total number of such migrants from Europe during the nineteenth century at fifty million. The scale of such migration relative to the population of the "home countries" can be gauged from the case of Britain. Between 1815 and 1910, 16 million Britons migrated to the temperate regions of white settlement while Britain's entire population in the initial date was just 12 million. Put differently, the scale of migration was such that almost half the annual increase in British population over this period left the country. If migration were to occur on this scale from India then between Independence and now 400 million Indians should have migrated out of the country, which only underscores the non-availability of this avenue in today's context to countries like India[1].

[1] I am grateful to Utsa Patnaik for these figures and for bringing home to me the importance of this argument.

The second factor was the export of unemployment through the imposition of deindustrialization on colonies and semi-colonies. The long Victorian and Edwardian boom in the course of which there was much absorption of those who had been pushed into the reserve army of labour from the ranks of pre-capitalist producers, would have been impossible if the colonial and semi-colonial markets were not available where British goods, especially cotton textiles, could be sold at the expense of the local pre-capitalist producers. Even as late as the end of the nineteenth century, almost half of British exports consisted of cotton textiles and their main destinations were India and China. Quite clearly India and China, which themselves experienced mass poverty because of being at the receiving end of "deindustrialization" are not in the same position today as Britain then was, of having such markets "on tap", upon which they can inflict de-industrialization.

The third factor was the high employment intensity of machine production in the nineteenth century. In fact machines were almost made by bare hands, so that the use of machinery which destroyed employment in the *machine-using* sectors, simultaneously generated substantial employment in the *machine-making* sector, keeping overall additions to technological unemployment restrained. The problem of absorbing the labour reserves in other words was itself kept within tractable limits owing to the high employment-intensity of machine making. (This high employment intensity of machine making could have perhaps been one reason why Marx believed that the organic composition of capital would rise over time with accumulation, and that, in consequence, there was a tendency for the rate of profit to fall over time at any given rate of surplus value). The net effect of technological progress today is far more labour-displacing than it then was.

Since none of these alleviating factors is available to countries like India today which themselves have inherited vast labour reserves and mass poverty from their colonial past, it is clear that capitalist development under these conditions can not replicate the experience of classical capitalism. The very lateness of the arrival of countries like India on the capitalist scene leaves little scope for such replication.

On the contrary this lateness of arrival actually compounds in their case the problem of absorption of labour reserves in at least three distinct ways in the neo-liberal era. First, since neo-liberalism does not permit any restraint on the pace of structural-cum-technological change, this pace is left to the spontaneous operation of the system, with the result that the following dialectic gets generated.

The existence of labour reserves keeps the real wage rate of workers, even in the organized sector of the economy, tied to some subsistence wage, and as labour productivity in this sector increases, the share of surplus in output increases. While this fact may give rise to a higher savings ratio, and hence, in the absence of demand constraints (which we ignore for the moment) to a higher investment ratio and a higher output growth rate, since those living off the surplus also have a life-style that is largely imitative of the elites in the advanced capitalist countries, and hence has an employment-intensity that is both low and declining over time, even this higher growth rate does not succeed in bringing down labour reserves. Hence an increase in the growth rate can coexist with an increase in absolute poverty, whose magnitude is basically determined by the relative size of the labour reserves.

Secondly, this possibility of the coexistence of increasing growth with increasing relative labour reserves is greatly enhanced by the fact that neo-liberal capitalism, by removing the support and protection measures for peasant agriculture, and petty production in general, adopted by the post-colonial State in the *dirigiste* era as a sequel to the agenda of the anti-colonial struggle, accelerates the pace of primitive accumulation of capital. A squeeze on incomes of such producers which even makes simple reproduction difficult for them (as shown by the large-scale peasant suicides), and outright dispossession, swells the size of the labour reserves far beyond what the increase in the work-force on account of the natural increase in population would have entailed. (Ponzi schemes like Saradha, which too are instances of primitive accumulation of capital, add to this process).

Thirdly, the main stimulus for growth in a world economy where neo-liberal policies hold sway comes from asset price bubbles. Even when a boom is initiated by some innovation, the extent to which this boom is carried is determined by the size of the bubble. The fate of economies like India therefore becomes dependent upon bubbles in the advanced countries, notably the U.S., which determine the state of the world economy, supplemented no doubt by local bubbles (such as India's own stock market bubble). The demand problem which may be kept at bay because of the bubble, which generates what Keynes had called "euphoric expectations" and stimulates both consumption and investments, essentially by the rich, re-emerges with a vengeance when the bubble collapses. Since even in the boom, for reasons already discussed, the relative size of labour reserves, and with it the relative numbers of the absolutely poor, increases despite the increase in the growth rate, the collapse of the boom owing to the bursting of the bubble, worsens things even further.

It follows that the trajectory of capitalist development in countries like India in the present neo-liberal era differs from the classical experience that informed Marx's perspective in a crucial way. In the classical case, as Marx sees it, the destruction of the old "community" is followed, *against the wishes of capitalism*, by the creation of a new "community" centred around the proletariat. This proletariat gets formed by the logic of capitalist development itself, originally as a group of diverse individuals brought together from diverse backgrounds; but it enters into "combinations" that bind it together, and acquires from "outside" a level of theoretical understanding that makes it capable of transcending capitalism, and liberating mankind from all exploitation.

In countries like India however, the vast labour reserves, which do not get used up, remain camouflaged in different forms such as "casual employment", "informal employment", "temporary employment" and such like, much the way that the unemployed in Britain during the Great Depression of the 1930s often took to shoe-shining to earn a pittance, and could be camouflaged as "shoe-shining employment". All these categories like "informal employment" whose growth is often portrayed in official literature as an "achievement", represent in reality a failure of the system, notwithstanding apparently high GDP growth rates, to use up the labour reserves. In fact labour reserves on this scale even embolden capital to seek to roll back the rights of the working class in the organized sector, to "casualize" them, and to weaken working class organizations.

Neo-liberalism thus creates conditions, through the persistence, and even further growth, of the already existing vast labour reserves, such that workers' "combinations", instead of going from strength to strength, have to fight to survive. The relentless effort of the capitalists in India, resisted till now, to introduce what is euphemistically called "labour market flexibility" is an example of such an assault.

This increase, not in the ranks of workers in the organized sector but in “casual”, “informal”, and “intermittent” employment, and in “domestic” work on piece rates, has major economic, social and political implications (all of which create conditions unfavourable for the growth of the Left). It keeps down the real wage rates of workers in the organized sector itself: indeed between 1988-89 and 2009-10 the average real wage rate of workers in the organized manufacturing sector actually has declined in real terms, even as labour productivity has risen substantially. The result has been a massive decline in the share of wages in value added in organized industry and a corresponding increase in the share of surplus.

But this trajectory of growth also entails an increase in the mass of what Marx had called the “lumpenproletariat”. This is not to say that all employment other than in the organized sector *ipso facto* constitutes a swelling of the ranks of the lumpenproletariat. But the size of what can be called the lumpenproletariat is directly related to the size of those who are “informally” employed, “casually employed” or “intermittently” employed. Marx had used the term however to refer not only to impoverished and destitute elements but even to “decayed *roués*” and “ruined and adventurous elements of the bourgeoisie”; he had called Louis Bonaparte too a “princely lumpenproletariat”. Now, a neo-liberal economic policy regime which represents the ascendancy of globalized finance capital also witnesses an increase in the scale of financial manipulations, of “American practices” (which Lenin had talked of in *Imperialism*), of “corruption” (which I come to later), of Ponzi schemes, and of course of “bubbles”; all these together with the increase in the reserve army of labour, a certain proportion of which enters into the “lumpenproletariat”, *gives rise to a situation where the social weight of the lumpenproletariat increases at the expense of that of the proletariat*.

If the period of anti-colonial struggle, intertwined with an unprecedented egalitarian social upsurge, which led to a system of parliamentary democracy with “one-person-one-vote”, constitutes a new phase of Indian history, the beginning of India’s Long Revolution, then the recent period when the Indian big bourgeoisie has got integrated with international finance capital and has imposed neo-liberal policies, must be seen as part of a counter-revolution. It is a counter-revolution because it apotheosizes inegalitarian development and unleashes more vigorous primitive accumulation of capital; it is a counter-revolution because it takes India into the orbit of imperialism and the prospects of a U.S.-India-Israel axis. It is also a counter-revolution because under this dispensation the weight of the proletariat declines relative to that of the lumpenproletariat.

This last factor has important consequences in the social as well as the political realms. I shall not enter into the social consequences of this phenomenon here; I shall confine myself to discussing a political consequence of this phenomenon, namely that it furthers the agenda of the corporate-financial interests to attenuate democracy.

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A neo-liberal regime is essentially anti-democratic, since the very fact of the economy being open to free cross-border flows of commodities and capital implies that governments must pursue measures that cater to the whims and caprices of globalized finance capital. Democracy must mean sovereignty of the people, their right to choose between alternative agendas and between alternative political formations championing these alternative agendas. But if no matter which government they choose, it pursues an agenda that is to the liking not of the people but of globalized finance capital, because it is afraid that otherwise there would be a capital outflow making the economy insolvent, then their choice ceases to have any meaning. Sovereignty of the people gets effectively replaced by sovereignty of globalized finance capital as long as the country remains tied to a regime of free commodity and capital flows.

Precisely for this reason however there remains a threat from the point of view of globalized finance capital that the country my opt out of such a regime, that it may delink itself from the process of globalization by putting trade and capital controls in place. Globalized finance, with which the corporate-financial interests of the country are integrated, seeks to prevent such a possibility. True, in the event of such delinking, the sheer transitional costs to the economy could be so large (for instance through immediate capital flight even before a regime of capital controls has been put in place), that few governments would even dare to contemplate such a course[2]. Nonetheless, the corporate-financial interests seek to guard against such a possibility not just through the imposition of such *indirect costs*, but through *direct control over the State.*

Of course, given the corporate-financial interests' own commitment to the "cause of globalization", and given the fact that the bubbles-sustained boom till now has brought a degree of prosperity to the urban middle class of India that has won its support for this "cause", there may be no immediate prospects of such delinking. But in a situation of crisis things could change quickly. So, direct control over the State by the corporate-financial interests remains for them a matter of priority.

Besides, even leaving aside the possibility of the country's delinking from the process of globalization, the corporate-financial interests seek such direct control over the State for an additional reason, namely that even their conquest of the economy remains far from complete, as long as the government, no matter how close to them, has to respect to an extent the popular mood. In India for instance large public sector units like the "Navaratnas", notwithstanding substantial disinvestment, still continue to be under State ownership. The banking system continues to be substantially State-owned, despite persistent demands made by the US administration on behalf of international finance capital that the State Bank of India at least should be privatized. "Labour market flexibility" continues to remain elusive, so that trade unions continue to have some effectiveness. The Reserve Bank of India has still not been made autonomous. And the government does feel compelled from time to time to introduce some ameliorative measures to offset the tendency towards primitive accumulation of capital (such as for instance reversing the tendency to wind up the system of public procurement of foodgrains that had been evident before 2008). Direct control over the State therefore becomes necessary for the corporate-financial interests to further their conquest of the economy.

They no doubt do have substantial control over the State already, through a variety of means. First, the fact that key positions within the government are occupied by employees or ex-

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[2] I am not talking here of capital controls that a country may put in place with the *approval* of the IMF, which of late has come to recognize that such controls may be necessary under certain circumstances, for that does not amount to delinking.

employees of the World Bank and the IMF who are fully committed to the agenda of international finance capital implies that a change of government through electoral means is unlikely to have much immediate impact. Secondly, the traditional bourgeois political Parties and leaders who in effect have been made to yield key decision-making powers to these IMF-World Bank employees, the members of what one may call a “global financial community”, have been paid off through deliberate acts falling under the rubric of “corruption”.

“Corruption” in other words has a functional role in a neo-liberal economy: it is a payment made to traditional politicians for relinquishing key decision-making powers to members of the “global financial community”, rather similar to the payments that Lord Clive had made to some “native rulers” in the early days of the British empire in India to persuade them to hand over revenue-collecting powers to the East India Company. The traditional politicians therefore become both acquiescent in the project of international finance capital, and compromised, and hence enfeebled, as well.

Even so however the corporate-financial interests desire greater direct control over the State. This is evident from the fact that at present they are even projecting a candidate of their own as the next Prime Minister, a person with a communal-fascist record, known for his so-called “development model” which has meant nothing else but literally handing over the economy of his state to corporate-financial interests. They are doing so not because the current government and Prime Minister are not sympathetic to their interests, but both as an insurance against the future and also as a new “model of governance” where their direct control over the State gets electorally legitimized.

Direct control over the State by corporate-financial interests constitutes of course the essence of fascism. We are accustomed however to thinking of the fascist State exclusively in terms of the 1930s experience, and in particular as one where “there is no next government” (to use Kalecki’s telling phrase). But 1930s fascism belonged to a world where finance capital was *national* as opposed to *international*, and hence the nation-State was not subject to the constraints that a nation-State of today, inserted within a context of international financial flows, faces. Besides, 1930s fascism also belonged to a world where the Soviet Union existed, where the dangers of a Proletarian Revolution were ever present (though the actual Revolutionary uprising had been defeated), and where in any case the working class Parties, whether Revolutionary or Social Democratic, commanded enormous electoral support. In that world finance capital could not afford to have a “next government”, but not necessarily so in today’s world.

What it does need is a ruthless attack on the Left, and on the working class organizations, either to eliminate them or to make them capitulate to its agenda. Whether the State is fascist or not must therefore be judged today not in terms of whether there are periodic elections, but in terms of whether it is directly controlled by the corporate-financial elements, and whether they use the State machinery to eliminate *through repression* all Left and democratic opposition to their control over the State.

Not only is India witnessing a “creeping fascism” on this criterion, but the development trajectory discussed earlier which increases the relative weight of the lumpenproletariat compared to that of the proletariat, is conducive to a march towards fascism.

In West Bengal, a bastion of the Left, a Party essentially made up of elements of the lumpenproletariat (witness its comprehensive involvement in the Saradha chit fund scam which literally conforms to Marx’s inclusion of “tricksters” in the definition of the “lumpenproletariat”), is engaged today in massive physical repression of the Left and in attacks on educational institutions. This Party recruited from the “lumpenproletariat” may not itself be a fascist Party in the strict sense of the term, in so far as it does not directly promote the corporate-financial agenda. But since the lumpenproletariat and a Party based upon cadre drawn from it can always be purchased by the corporate-financial interests to aid them in achieving direct control over the State, the increase in the social weight of this class to the exclusion of the proletariat, portends a major danger for Indian democracy. And this is quite apart from the social consequences of this development trajectory, in terms of the complete breakdown in social norms and the acute gender oppression that this has precipitated.