ON SOME CURRENTLY-FASHIONABLE PROPOSITIONS IN PUBLIC FINANCE

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It is a real honour for me that I have been asked to deliver the I.S.Gulati Memorial Lecture for 2005. Iqbal Gulati was not only an outstanding economist, but also a person of the highest level of integrity. He was not one to change his views for convenience. He would not bend with the wind. He remained true to his basic humane values and made common cause with all those who shared these values. It is a symptom of this integrity that while many, who began their careers being far more radical than Iqbal Gulati in their political convictions and academic views, drifted into anti-Leftism and propagated the currently dominant IMF-World Bank positions, Iqbal Gulati moved in the opposite direction, coming closer and closer to the Left, and was even writing a regular column for *Deshabhimani* on economic matters until his failing health prevented it.

Today's occasion is particularly poignant for me since Iqbal was a close personal friend of mine, warm-hearted and generous to a fault. His company and the warm hospitality that he and Leela showered on me over the years was a source of much joy for me. I am grateful that this Lecture offers me the opportunity to pay my tribute to this extraordinary man whom I had the privilege of knowing for well over a quarter century.

Iqbal had varied interests in economics, but the one area that claimed his passion was public finance. I have therefore decided to devote this lecture to an examination of certain currently-fashionable propositions in public finance. It is in my view important to do so since the fashionableness of these propositions derives not from their theoretical worth but from the fact of their being assiduously promoted by the Bretton Woods institutions, and by international finance capital in general. They serve, as I hope to show in the course of this lecture, the interests of international finance capital, while being inimical to those of the vast mass of the Indian poor. They are aggressively pushed by the media, which not only are wedded to the neo-liberal agenda, but also have no qualms about substituting the serious discipline of economics with fatuous formulae. Let us look at some of these formulae.

A very common formula is the following: public sector enterprises which make losses are *ipso facto* "inefficient" and hence should be either closed down or made "efficient" through being "privatized". The government in other words must *never* subsidize loss-making public sector units, since that entails subsidizing "inefficiency"[1]. What this formula misses is the fact that the concept of "efficiency" in economics is a complex one[2]. Any enterprise, or more generally any "activity", is considered "inefficient" if at a set of *shadow prices* derived from an optimal programme, as a *dual* of the optimization exercise reflecting the social priorities, it makes losses, since, in such a case, its discontinuation or substitution by some other activity would be socially more desirable. This is absolute bread-and-butter economics which all of us had to learn in our student days.

In a market economy of course there is no explicit social optimization exercise possible. For such an economy an extension of the above proposition is often used. And this states that since the competitive market, *as an ideal entity*, carries out an implicit optimization exercise, where, *for a given distribution of initial endowments among economic agents*, it achieves a social optimum in a sense defined by Vilfredo Pareto (where nobody can be made better off without someone else becoming

[1] Even the Common Minimum Programme of the UPA government promises not to privatize profit-making public sector units, the clear implication being that loss-making public sector units should be privatized.

worse off), a loss-making unit *under perfect competition,* i.e. at the prices prevailing in a competitive equilibrium, is "inefficient" *in the context of this particular social optimization exercise*.

But of course this particular social optimization exercise has no special sanction; Pareto-optimality is perfectly compatible with vast inequalities in wealth distribution. And a society wishing to avoid such vast inequalities need not do so solely through lumpsum (non-price-distorting) transfers of the sort that an enthusiast for perfect competition would suggest; it could very well *use the price mechanism* itself for transfers[3]. For example, in a society that is exercised not just over inequalities *per se* but over the fact that such inequalities cause deprivations for a large number of children, a better way of dealing with inequalities would be to subsidize schooling and introduce free mid-day meals, than just to ensure the payment of a lumpsum amount to the parents for covering children's school and meal expenditures. Such a society in other words may choose deliberately to have prices different from the competitive prices, and at these prices there would be loss-making enterprises.

Putting the matter differently, the price-system plays multiple roles: it acts as a signal for the use of available resources for producing at any particular point on the Production Possibility Frontier, and it also acts as a means of distributing a given produced bundle of goods among the economic agents. There are plenty of cases where it is worth society's while to have not just one set of prices fulfilling both these roles (as under a conventional competitive equilibrium), but to combine two different sets of prices derived from these two different roles; it is worthwhile for instance to make departures from the competitive prices in distributing a bundle of produced goods, in the interests of a social optimality transcending Pareto. (The amounts produced, to be sure, would be influenced by such departures). Any such combining would necessarily entail loss-making and hence subsidies.

Let me recapitulate the argument. Loss-making can at all be a matter of concern only in a world where prices derived from a social optimizing exercise prevail. In a market economy where no explicit social optimization takes place, loss-making can at all be a matter of concern only if perfectly competitive prices prevail, which are based, theoretically, on an *implicit* social optimization exercise. But even in this latter case, there are perfectly legitimate reasons for the continuance of loss-making enterprises which charge prices that are deliberately kept different from the competitive prices, in so far as the social objective is different from what the implicit optimization of a competitive market achieves. Loss-making, sustained through subsidies even in a competitive market therefore, need not be avoided and is certainly not synonymous with "inefficiency".

But when we are not in a competitive market, the fact of an enterprise making losses signifies absolutely nothing about its "efficiency". If an enterprise makes a loss at some *arbitrarily determined* prices (i.e. prices different from those that obtain in a perfectly competitive equilibrium), then to call such an enterprise *ipso facto* "inefficient" is a travesty of economics. And yet this is precisely what constitutes an accepted proposition in the media-promoted, Fund-Bank-approved public discourse in India. To be sure, any such loss-making has to be investigated; the "efficiency" or otherwise of such enterprises, defined *independently* of loss-making *per se* and in some objective fashion (such as in terms of physical indicators like the vector of physical inputs per unit of output), has to be explored; and if such an enterprise is found to be "inefficient" by such an independent criterion, then the course of action, *if any,* that should be adopted with regard to it has to be decided upon; and

[2] I have discussed this concept at length in my Kanta Ranadive Memorial Lecture. See Patnaik (1997).
[3] The argument which follows is based on Dobb (1969).

even if the enterprise is found to be "efficient" on the specified criteria, whether it should persist in making losses or whether it should adopt measures to cut down losses, and if so what measures, has to be pondered over. But these are all a separate matter, not germane to the present discussion. The point at issue here is this: loss-making at a given set of arbitrary prices is no indicator of "inefficiency", and such loss-making does not necessarily warrant either closure or "privatization".

The question is often asked, even by those who see the obvious merit of this last argument: even assuming that loss-making is no indicator of "inefficiency", how can the government keep meeting these losses year after year? Is such a course of action *fiscally* sustainable? This question merges with another currently-fashionable general proposition, namely that subsidies must be eliminated as far as possible, on purely fiscal grounds. Let us consider its merit.

What is often not appreciated is that subsidies, whether on commodities or whether earmarked for individuals, are simply a negative form of taxation. A tax-system consists of an entire vector of taxes and subsidies, i.e. of negative and positive taxes. To say that subsidies must always be eliminated (or whittled down as far as possible) is the same as saying that a tax system must always have only positive rates. There is absolutely no justification for such an assertion under any principles of economics. What is more, if we start from some given tax system then any *reduction* of tax rates is analogous to a *negative movement* in the tax rate, and hence is tantamount to the offer of a subsidy *relative to the original situation*. Anyone opposed to subsidies must therefore, to be logically consistent, be opposed to such a reduction in tax rates.

To take a simple example, if we have a tax system to start with where we have Rs.200 of taxes and Rs.100 of subsidies, giving a net revenue of Rs.100, then there are two ways of raising the net revenue to Rs.200: eliminate subsidies or raise tax revenue to Rs.300. Not only is it the case that no principle of economics exists which establishes the first as a superior option compared to the second, but the pursuit of the first option would not even achieve this end if *simultaneously* tax revenue gets lowered to Rs.100. Thus the advocates of subsidy-elimination not only have no theoretical argument in their favour, but are actually inconsistent if, while demanding subsidy elimination, they close their eyes to tax cuts. And yet this is precisely what has been happening in India. Precisely under the neo-Liberal dispensation when the demands for subsidy cuts have been the most strident and have fructified significantly, there has been a substantial cut in the central government's tax revenue to GDP that has been applauded by the very same subsidy eliminators[4] .

Clearly underlying the demand for subsidy elimination, therefore, is not any fiscal concern as is claimed, but simply a desire to alter the distribution of the fiscal burden, away from the well-to-do, who have been the greatest beneficiaries of the tax cuts, to the poor who have borne the brunt of the subsidy cuts. This is entirely in keeping with the pattern elsewhere in the world where exactly the same propositions have been advanced and implemented.

But the poor have not suffered merely through the subsidy cuts; they have been the victims of public expenditure cuts more generally. And these latter cuts have been sustained by yet another currently-fashionable proposition of public finance, namely that the fiscal deficit must always be severely curtailed. This is so fashionable that the central government has even enacted a law designed to put a cap on its fiscal deficit under all circumstances. And interestingly this law passed under the NDA government was notified under the UPA dispensation: its merits are presumably so overwhelming that their appreciation is all pervasive. Let us turn to an examination of these merits.

[4] Chandrasekhar and Ghosh (2002) discuss at length the decline in tax-GDP ratio.

II

It is noteworthy that there is no proper published theoretical justification within India for curtailing the fiscal deficit. The only place where one gets a brief theoretical defence of this position (apart from the wisdom imparted by sundry visitors from the IMF, the World Bank, and credit-rating agencies in their interactions with the media) is the report of the Prime Minister's Economic Advisory Council under the NDA. And that is as follows: a fiscal deficit (barring presumably a small magnitude) must always be eschewed, since, if it is monetized, it gives rise to inflation; while if it is not monetized, it raises the interest rate and crowds out private investment.

Even though this set of assertions appears in a document signed by some of the most distinguished senior economists of the country, *every single one of these assertions is plain wrong*[5]. Barring cost-push factors, whether there is inflation or not depends upon the magnitude of aggregate demand relative to the state of potential supply: in a demand-constrained situation where there are substantial unutilized capacities and unsold foodgrain stocks, a fiscal deficit, whether it is monetized or not, can have no impact whatsoever on inflation. A monetized fiscal deficit raises the magnitude of reserve money in the economy, and hence *the potential money supply*. But even if this potential money supply gets translated into actual money supply, it can have no impact on inflation as long as the aggregate demand for goods does not exceed their potential supply. (*Monetarism which holds otherwise is invariably based on the assumption of full employment*[6]).

Likewise, if the fiscal deficit is not monetized, then it does not follow that it would necessarily give rise to a higher interest rate. The standard argument in favour of the assertion that there would be a rise in the interest rate runs as follows: if the government borrows from the "market" then there is an increase in the supply of government securities, and hence by implication of the sum total of securities. This lowers the prices of securities and hence raises the interest rate. The problem with this argument however is that as government expenditure increases through the fiscal deficit, it raises the level of income and hence the level of private savings, which in turn increases the demand for securities, where such savings can be "placed". The fiscal deficit in other words acts not just on the supply of securities but also on the demand for securities. Indeed a fiscal deficit necessarily finances itself *at any given interest rate*: in a closed economy it does so by generating an excess of private savings over private investment that is exactly equal to itself. (This is but another way of saying that in a closed economy investment generates an amount of savings that is exactly equal to itself at any given interest rate). The question of a fiscal deficit increasing the interest rate therefore simply does not arise.

The interest rate is not determined by savings-investment equality, i.e. exclusively through the flow equilibrium. Its determination involves the stock equilibrium, i.e. the demand and supply of money (though flow elements may influence the demand and supply of money, as the IS-LM analysis famously made clear).

Thus if a fiscal deficit raises the interest rate then that can be only because the increase in income it gives rise to creates a demand for money that is not satisfied by money supply at the existing interest rate. But there is no reason why this should happen. If banks have unutilized lending capacity, which is typically the case in a demand-constrained system, then money

[5] For a detailed critique of the PMEAC's views see Patnaik (2001).
[6] For the theoretical underpinnings of monetarism see Frank Hahn (1984).

supply would increase in response to demand without occasioning an increase in the interest rate. And if perchance banks do not have unutilized lending capacity, so that the interest rate does increase in response to the increased demand for money, then the blame for it has to be put at the door of monetary policy rather than the fiscal deficit: after all the interest rate is what it is because monetary policy keeps it there. Finally, if the interest rate does increase with a fiscal deficit because of non-accommodating monetary policy then exactly the same *denouement* would follow *any* increase in the level of aggregate demand, even an increase not caused by a fiscal deficit. Thus there is no direct connection whatsoever between the interest rate and a fiscal deficit.

This proposition had been established three quarters of a century ago and constitutes bread and butter macroeconomics. Indeed it is almost embarrassing to repeat it in this day and age, but one is constrained to do so because of the immense success of the IMF-World Bank ideology in giving a counter-impression. What this ideology asserts today is nothing new. In 1929 when Lloyd George had advocated a public works programme financed by government borrowing, as a means of overcoming unemployment in Britain, the British Treasury had put out a White Paper arguing precisely along these very lines: public works financed by a fiscal deficit would raise interest rates and crowd out private investment, so that there would be little net expansion in employment in the economy. It is against this view that Kahn (1931) had written his celebrated article on the "multiplier" which was to form the core of the Keynesian Revolution. Kahn's argument, as pertinent today as it was at the time, was simple: the level of savings, it is undeniable, depends on the level of income; if the interest rate is determined by savings-investment equality, then this can be the case *only if income is already given, i.e. only if employment is already given*. There is in short an implicit assumption of full employment underlying the Treasury View, which is neither theoretically justified, nor, in the context of the Depression that had already set in by 1929, empirically warranted[7].

Once we stop *assuming* that a capitalist market economy is always at full employment, it is clear that something else must be entering the picture to determine both income and the interest rate, and that something else can only be the fact of the stock equilibrium. The validity of Kahn's argument, and hence by implication the invalidity of the Treasury View, arises from the elementary fact that in an economy where all economic agents, including the banking system and the plethora of financial institutions are forever engaged in making portfolio choices based *inter alia* upon their expectations about the future, money too can be held as an asset. The interest rate is the outcome of such choices which is enshrined in a stock equilibrium.

Or, putting the matter differently, the recognition of a stock equilibrium based on choice between assets (including money) necessarily precludes the assumption of perpetual full employment that underlies the Treasury View of 1929, the "Crowding Out" theory, the view of the Prime Minister's Economic Advisory Council, and monetarism generally[8]. (It is a separate matter, which need not detain us here, *that these theories would be equally invalid even if full employment actually prevailed*, since a fiscal deficit in such a case would still finance itself without "crowding out" private investment, by

[7] A simple exposition of the issues involved is contained in my V.P.Chintan Memorial Lecture "The Humbug of Finance", republished in Patnaik (2003).

[8] There is a view that monetarism would be validated in a world where money wages and prices are flexible. This is wrong. In a world with inherited payments commitments, wage-price flexibility, far from creating full employment, would actually create havoc, as Kalecki had argued long ago (see Kalecki 1967). Besides since even transactions demand for money entails holding money as a store of value for a certain period, a world where there is complete flexibility of money wages and prices would actually be a money-less world.

generating, in a closed economy, an equivalent amount of additional "forced savings" through a process of "profit inflation", i.e. through a process of increase in prices relative to money wages, a phenomenon with which we in India have been very familiar for a long time).

The indiscriminate hostility to fiscal deficit therefore has absolutely no theoretical basis. What is more, it is a harmful doctrine. In a country like India where the public sector is in charge of supplying a variety of capital goods and even foodgrains, a fiscal deficit would in most cases not even increase the government's net indebtedness to the private sector: its impact would be to create additional incomes and hence savings within the public sector itself, though outside of the arena that is within the ken of the budget. To perpetuate unemployment in such a situation, to perpetuate hunger and malnutrition in the midst of burgeoning foodgrain stocks *within the public sector itself*, to perpetuate unutilized capacity within the equipment producing segment of the public sector itself (and then use it as a justification for privatizing this public sector segment) even while inviting MNCs, on the basis of guaranteed rates of return, to set up units with imported equipment, *all in the name of keeping down the fiscal deficit,* underscores the extraordinary harm that false theories can do. Not surprisingly, Professor Joan Robinson (1962) had called this obsession with curtailing the fiscal deficit the "humbug of finance".

But the irony does not end there. Let us for argument's sake assume for a moment that the Prime Minister's Economic Advisory Council is right, and that a fiscal deficit, if monetized, would cause inflation. But the inflow of speculative finance capital such as is occurring of late through FII investments in India has *exactly the same effect on money supply as a monetized fiscal deficit has*. Those opposed to a monetized fiscal deficit should logically therefore be opposed to the free inflow of finance into the economy. But not one voice from among those who cry hoarse over the baneful effects of fiscal deficit has been raised against the free inflows of finance capital, in favour of capital controls! This is duplicity *par excellence*.

But even the duplicity does not stop here. While fiscal deficit is supposed to be a wrong way for the government to raise resources, selling public sector equity is supposed to be perfectly harmless, while in fact there is no difference between the two. If a fiscal deficit crowds out private investment, it defies reason why disinvestment should not have the same effect. After all the only difference between the two is that one adds to the supply of bonds while the other adds to the supply of equity. If private savings are diverted from investment in the first case, they should be equally diverted in the second case as well. But government economists, while running down fiscal deficits, enthusiastically welcome disinvestment as a way of resource mobilization.

III

The combined effect of reduction in the tax-GDP ratio, which the IMF itself has now informed us is a pervasive phenomenon under "liberalization", and curtailment of fiscal deficit, is a cut in government expenditure as a proportion of GDP, and a deflation triggered by it. The deflation not only contributes towards making the economy demand-constrained, but also entails cuts in social expenditure and development expenditure, which have a particularly adverse effect on the poor and which compound the inegalitarian thrust of fiscal policy noted earlier.

There is however an additional phenomenon. Not content with the FRBM enacted at the central level, the Twelfth Finance Commission has now suggested that similar Acts should be passed at the level of the States. In addition it has now made the State governments go to the "market" for raising loans instead of obtaining loans from the Centre. FRBMs enacted at State level would, needless to say, compound the problem of deflation. In addition, making State governments go to the "market" is a euphemism for forcing them to be obsessed with the need to remain "creditworthy" *in the eyes of finance capital,* which, in the current era of "financial sector reforms", means, in effect, an obsession with "creditworthiness" in the eyes of *international finance capital.*

The implications of this obsession have to be seen in the context of the particular kind of VAT that has been introduced recently. It entails uniform rates, fixed through the instrumentality of an Empowered Committee of State Finance Ministers, for all States, with no freedom given to any State to fix rates of its choice. Since the Sales Tax had been the main instrument of resource mobilization for State governments, the replacement of the Sales Tax by a uniform VAT means that State governments would henceforth have little control over the amount of revenue they can raise. Since the amounts they can borrow would depend upon how well they appease international finance capital, which has a marked preference for a particular set of policies, *all State governments would from now on willy-nilly pursue these very policies.* The overall implication is not just to undermine in a formal sense the federal nature of the polity[9] but to impose actually a necessary uniformity on the set of economic policies pursued by the State governments.

There is something more at stake. If all state governments deal directly with international finance capital, then the political entity called India would cease to have much relevance. And a fall-out of this would be individual States handing over control over their mineral resources to Multinational Corporations. There would thus be an inevitable tendency towards the "Balkanization" of the country, with mineral-rich but economically poorer States (the two tend to go together) making particular efforts to appease international finance capital by making available their mineral resources for exploitation by the latter on favourable terms. In such a case the gains of independence which had meant above all national control over mineral resources would have been "rolled back".

"Balkanization" of large developing countries and control over their natural resources are the twin phenomena which the major capitalist powers, especially the leading imperial power of our times, favour. This is because countries like China and India represent a potential challenge for them. The importance of using the fiscal instrument to snuff out that challenge should not be underestimated.

IV

Let me recapitulate the argument till now. The net effect of the currently fashionable propositions in public finance is to impose a deflation on the economy, to encourage the privatization of public sector assets, to alter the distribution of the fiscal burden in the economy in an inegalitarian direction, and to impose a uniform set of policies on the State governments which are neo-liberal in character and which, by reducing the relevance of the Centre in the economic lives of the States and bringing the latter into a direct relationship with international finance capital, pave the way for a Balkanization of the economy. The fact that these policies are theoretically untenable was argued above. The fact that these policies are immensely harmful for the nation can be denied only by those who choose to put blinkers over their eyes. But the question arises: whose interests do these policies serve? I shall now argue that these policies are in conformity with the class interests of international finance capital (including MNCs who are intimately linked with it) and its local collaborators, and against the interests of the vast mass of the people of the third world.

Deflation promotes centralization of capital, where small producers are expropriated by large ones, including MNCs and those "fronting" for international financial interests. The privatization of public sector assets is an obvious case of expropriation, which indeed falls under the rubric of what Marx had called "primitive accumulation of capital". When assets built up on the basis of tax revenue collected largely at the expense of millions of common people (since they are the ones who pay the bulk of tax revenue) are given away to a few rich private buyers at throwaway prices, then we have a classic case of "primitive accumulation", i.e. the use of the intermediary role of the State to filch resources from millions of people to build up private fortunes. Likewise, when MNCs are invited to set up power plants, because the government, despite the existence of unutilized capacity in power equipment production within the public sector itself, does not increase the fiscal deficit owing to its faith in the "humbug of finance", and when these MNCs cause an increase in power tariff to millions of peasants because the rate-of-return-guarantee they obtain encourages "over-pricing" of imported equipment, then we are having in effect the filching of resources from millions of peasants by a few MNCs, which again is a classic case of "primitive accumulation of capital". Similarly, when the pervasiveness of deflation in the world economy results in a shift in the terms of trade against agriculture, as has been happening of late, we have a classic case of "primitive accumulation of capital". And the same is true when the fiscal burden is shifted against the poor and in favour of the rich. Expropriation, centralization, and primitive accumulation are the essence of the neo-liberal strategy, of which neo-liberal public finance is an integral element.

This process of "expropriation" that the neo-liberal policies unleash is different from "exploitation" as is commonly understood and as was defined by Marx. *The process of filching under the neo-liberal dispensation that we have been talking about does not occur within the process of production, which is the site of "exploitation" as Marx had defined it*. The expropriation under neo-liberalism is extraneous to the process of production and can increase in magnitude even in an economy where the productive forces are stagnant or retrogressing.

An implication of this distinction deserves notice. There is much talk these days that the "trickle down" effect of growth will improve the lot of the poor. In fact however the trend rate of growth since the introduction of neo-liberal policies in the nineties has been no higher than the corresponding figure for the decade of the eighties. If on top of this there has been a pervasive process of expropriation and primitive accumulation of capital in the later period, then the extent of poverty at the end of this later period must be higher than at the end of the earlier period. But there is an additional point. *Even if the growth rate in the later period would have been somewhat higher than in the preceding period, in so far as the growth process is accompanied by pervasive expropriation, the magnitude of poverty is still likely to have increased rather than decreased.* It follows that concentrating on growth rates, as government economists do, as a panacea for poverty eradication, is fundamentally fallacious. The pertinent issue is not the *rate* of growth but the *nature* of growth. And growth under the neo-liberal dispensation, *no matter how rapid it is* (within realistic limits), would never eradicate poverty but would rather accentuate it, since such growth is invariably accompanied by a process of pervasive expropriation[10].

[9] On the issue of the undermining of the federal structure through a uniform VAT see (A.Bagchi 2005).

[10] This is because even if the growth rate is high enough to ensure that all expropriated find employment, since the average wage in their new employment is typically lower than their average income prior to expropriation, it would still mean a worsening of the condition of the

One corollary of this is that the official figures on poverty, which show a decline, are really without any worth[11]. Time does not permit me to go into this issue here but I shall discuss only one aspect of it. The definition of poverty in India is in terms of a calorie norm, which, for rural India, is 2400 calories per person per day. One may not like this definition but it is the definition underlying official pronouncements. If we use this definition today then 75 percent of the population of rural India is "poor", which is higher than the figure (56 percent) in 1970-71 when the poverty estimates began. Per capita foodgrain absorption in the country as a whole which had stood at around 200 kg. per annum at the beginning of the twentieth century, had gone down to around 150 kg. at the time of independence; it had recovered, with much effort in the post-independence years, to around 180 kg. by the end of the 1980s. Sugnificantly, it has once again declined during the nineties, and particularly precipitously during the latter half of the decade, to reach 157 kg. for the quinquennium ending 2002-3. This is about the same level as on the eve of the Second World War.

While no one can deny the fact of a sharp decline in foodgrain absorption, many argue that this is because of a change of taste and does not signify growing deprivation. Such an assertion is odd since per capita foodgrain absorption, *taking both direct and indirect modes of absorption together*, is always positively associated with per capita income. The U.S and Continental Europe for instance have far higher per capita foodgrain absorption in this inclusive sense than third world countries, including India. The change of taste argument, *for the population as a whole*, appears therefore to lack substance. What is more, it also seems to be the case that according to the latest NSS round there are as many as 8 states in India where rural per capita foodgrain absorption has fallen below 1800 calories per day which is the absolutely minimum necessary nutritional intake according to the WHO. It is significant that in 1999-2000 there were only 3 states where the average figure for rural areas had fallen below 1800 calories.

The symptoms of growing food deprivation, and hence by inference growing deprivation in general, are quite striking, especially in rural India. Paradoxically, while this growing food deprivation was occurring the country was saddled with unprecedented surplus foodgrain stocks. By July 2002 the magnitude of stocks stood at 63 million tonnes of which nearly 45 million represented surplus stocks. The co-existence of surplus stocks with acute and growing deprivation is indicative of a massive squeeze on the purchasing power in the hands of the rural poor, and one obvious reason for this is the curtailment in rural developmental expenditure by the government, which leads us back to the false and motivated theories of public finance that have become currently fashionable.

It follows that if the government undertook a large-scale employment generation programme, such as was visualized for instance in the Rural Employment Guarantee Scheme promised in the Common Minimum Programme, and even financed the bulk of it through deficit financing, then in a situation of foodgrain stocks, it would be killing several birds with one stone: feeding the hungry, reducing unemployment, reducing the foodgrain stockpile, and, if the programme is well-conceived, building up some rural assets in the process. But successive governments under thraldom to international finance capital have refused to do this. The UPA has introduced an extremely diluted version of the Rural Employment Guarantee Programme it had promised, so diluted in fact that it amounts to nothing short of reneging on its election promise. And the NDA actually sold 19 million tonnes of surplus stocks in the international market at prices below those charged to the APL

vast expropriated mass. Breman (2003) in his Sukhamoy Chakravarty memorial Lecture had argued, much along these lines, about rising poverty in Ahmedabad owing to the collapse of the textile industry.

[11] The discussion that follows borrow heavily from the work of Utsa Patnaik. See in particular U.patnaik (2004), and (2005).

population, and reportedly even below those charged to the BPL population. Much of these exports would have gone to feed pigs and cattle in richer countries. The fact that foodgrains taken from the mouths of the hungry rural poor of our own country are used to feed cattle and pigs in the richer countries, shows the utter absurdity of the "humbug of finance" which currently hegemonizes our intellectual discourse. Iqbal Gulati would certainly have protested vehemently against it.

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