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Policy Shift Towards Demand Management For Promoting Economic Development: Case Of India And West Bengal

Dr. Koushik Dan

Assistant Professor of Economics
A P C Roy Government College, Siliguri
Mail ID: d76koushik@gmail.com

Abstract:

India, after independence, started following socialistic pattern of development. The process continued up to first half of 80s. During this phase models based on either market led growth or Keynesian approach of demand management were ignored. Instead, former USSR largely influenced the policy pattern of the country. Emphasis was accorded mainly to ease supply side bottlenecks. The state of West Bengal also followed the same path but with further left lineage. After 90s however, major shift in development policy is observed in the country. During this phase state intervention is gradually replaced by liberalisation, privatisation and globalisation. Interestingly, in the new millennium Keynesian type of demand management is starting to get importance. Such paradigm shift is increasingly reflected in some of the programmes that are being introduced recently. In this context the present paper is intended to make a review on policies that the country and the state of West Bengal is following after independence.

Key words: Policy, Market, Socialistic, Keynesianism, Demand.

INTRODUCTION

India and other Asian countries got their independence after the end of Second World War. Devastating impacts of Second World War was there. Expenditure of maintenance of colonies were increasing rapidly. Along with these, the prolonged and un-interrupted political struggle of Indians against British speeded up the process of getting independence.

At the very beginning, during early 50s India relied on Soviet type of development strategy. During that period there were two alternative standard economic models. One was based on a synthesis of Classical and neo-classical economics. This was a supply sided model. It relied solely on automatic market mechanism to deal with real World problems. Before the onset of 'great depression' USA and most of the developed European countries were governed mainly by classical prescriptions. Even during depression nominal wage rates were further reduced in these countries to increase demand for labour. At the other extreme there were 21 Socialist countries led by former United States of Soviet Republic. These states did not believe in the efficacy of automatic market mechanism. Rather state-owned industrial production and its distribution by the state according to needs was practiced in these states. Newly independent countries were to choose between these two alternatives. Though not very old, there was also another alternative. It was the model prescribed by John Maynard Keynes based on aggregate demand management by the govt. in a developed market economy.

India preferred to follow Soviet line as ideological orientation of most of the then policy makers were ideologically aligned towards Marxist-Leninist line of development. After the success of Bolshevik revolution (1921) Soviet Union was formed in 1922. Since its inception it gradually transformed itself from agrarian economy to industrially and technologically advanced economy. The experiences were quite appealing to the newly independent states of Asia. Jawaharlal Nehru visited Soviet Union in early 1920s and was highly influenced by their achievements. Accordingly, as India got her independence, Mahalanobish model was implemented to build the commanding height of the public sector.

However, knowingly or unknowingly, Indian policies had been shifting gradually from Soviet lines to Keynesian lines. The departure from Soviet lines was evident as India, unlike its mentor, was a democratic country rather than autocratic. And political compulsion to maintain populism helped in such policy shift too.

STRUCTURAL DIFFERENCE: FIRST WORLD AND INDIA

Globally Keynesian orthodoxy ruled the academic as well as practical fields up to 1970s. During that phase India, however, was busy in nationalisation of private banks, establishment of various large-scale PSUs, introduction of various protective instruments (MRTP, FERA, Licensing policy etc.). Naturally India's route towards making a 'socialistic state' was different as she did not start with an authoritarian rule like Soviet Union. In an election based democratic set up, she, under the leadership of Jawaharlal Nehru and then of Smt. Indira Gandhi, gradually tried to increase state control over entire economy. Contrarily however, there remained some confusion relating to specific goal of the newly formed independent government.

The source of confusion arises as at the one end preamble of Indian constitution promises to build a socialistic state and on the other hand Nehru, in several occasions, uttered to express his wish to enter into 'Take-off stage'. Rostow preferred to mention his 'take-off theory' as 'anti-communist-manifesto'. The model is based on theorisation of experiences of British industrial revolution. The ideology of establishing large scale PSUs by socialising means of production and to prepare to enter into a predominantly capitalist take-off stage stands in sharp contradiction to each other.

After 1970s Keynesian orthodoxy was challenged in the developed World as a new phenomenon, known as stagflation, could not be explained within the Keynesian framework. Apart from this theoretical incompleteness, Keynesian model also suffered from political support too. In the late 70s Influence of USA in the non-communist blocks was growing enormously. World leaders like Ronald Reagan, Margaret Thatcher were more and more inclining towards a new school, Monetarism. Unlike its predecessor the chief exponent of this school, Milton Friedman, prescribed to intervene less to stabilise the economy.

India, on the other hand, from late 70s or from early 80s started abandoning its hope to build a socialistic state. Particularly, after the adoption of power by Rajiv Gandhi liberalisation wave started to flow in the Indian economy. A greater role of market with limited government monitoring was being introduced in the economy. Before Rajiv Gandhi India always maintained good relation with former Soviet Union. Both Pandit Nehru and his daughter Mrs. Indira Gandhi were more aligned politically to Soviet Union. India never tried to improve its trade relations with ASEAN countries as at least four members of ASEAN countries (Indonesia, Thailand, the Philippines and Singapore) were aligned to USA. The relation further worsened in 1980s with Mrs. Gandhi's decision to support the Vietnam-backed Heng Samrin regime in Cambodia, which had friendly ties with the Soviet Union. Moreover, India did not support Indonesia's candidature for the Chairmanship of the Non-Aligned Movement at the New Delhi summit in 1983. This policy regime may be characterised by socialistic, inward looking and mostly conservative. As Rajiv Gandhi took power 'Inward Looking Policy' was replaced by 'Outward Looking Policy'. Since then the then Prime Minister started trying to improve the country's relation with USA.

One of the reasons behind such policy shift was that even India's role model, Soviet Union, had itself adopted a liberalised and open economic policy, known as 'Glasnost Perestroika', during late 1980s. India, at this stage, found a way out in Keynes's approach to follow a policy mix, comprised of market with public action.

CASE OF WEST BENGAL: PSEUDO COMMUNISM

Govt of west Bengal, under the leadership of National Congress and then of United front followed the same path. Since the Assembly election of 1967 Left front started to dominate the assembly seats but until 1978 they were repeatedly denied to form government. Up to 1977 west Bengal faced several crises like severe food shortage, communal riot, war, immigration, Naxal revolt and various others. During this tough regime no real development occurred in the state. Some industries like IISCO, DSP, ASP, CLW, and BALCO etc. were undertaken or established but in most of the cases the initiatives were undertaken by the central government. Left front earned power in 1978 and since then a process of making an apparent communist island inside a democratic country was started in west Bengal.

During their initial stages left led government was quite enthusiastic in empowering rural people through its land redistribution programme, popularly known as Operation Barga. Before being in absolute power, the 13 months experiences of coalition government during 1969 helped them to understand the pulse of common people.

The main ideological background of Operation Barga was to empower actual producers of rural Bengal by giving them rights to cultivate permanently. The rights conferred to the producers created a new class, bargadar and the possibility of eviction of bargadars by the landlords was disallowed by the Operation Barga. It was given legal backing through the Bengal Land Holding Revenue Act, 1979 and the Revenue Rules of 1980. From the economic ground it was believed at that time that some sort of occupancy right to the actual tillers would inevitably result in increase in productivity as well as equitable distribution of land holding. However, there were some important political considerations too. Calculations were made and it was found that increase in vote by the registered bargadars in the coming elections would be much higher than the reduction of the same among the landlords.

The process continued up to early 90s. During that phase free market economy or even Keynesian line of thinking was considered as sinful. Any attempt to introduce new economic elements in the apparent closed structure of the state was regarded as 'imperial conspiracy'. China, Vietnam was considered as role models of the state of West Bengal.

LIBERALISATION AND PARADIGM SHIFT

With the onset of liberalisation in 90s a process of removing economic barriers between India and the World was started.

In the national level since then various reform measures were being undertaken in the fields of domestic production, export-import, foreign exchange management, licensing, foreign investment and many more. The central themes of those measures were to reduce financial liabilities of the government and to introduce efficiency in every spheres of the economy. In such liberalised environment, being a centre dependent state, west Bengal cannot nurture communism or even socialism alone. In Indian democratic set up state governments have to depend mostly on central govt grants. So, in most of the occasions central policies are followed instantly or gradually in the states. Not only this, at the state level, leftists and Congress (I) may fight as rivals but at the centre, leftists often provide support to congress (I) to keep so called communal powers (?) away from the throne.

Changing scenario in India and in the state of west Bengal indicates that in the post liberalisation period, both of them, are pursuing similar policies to bring in reformed-capitalism and both country and the state are running towards building a developed capitalist society. But unlike true capitalism governments intervene regularly to heal some of the chronic diseases and to counter some short-term crises. There are numerous examples of such actions. Some of the burning examples are intervention by the SEBI during various occasions relating to financial market malfunctioning, Sarva Siksha Mission to ensure universal education to aspirant minors, National Health Mission and various others. Among them one of the widely discussed and implemented schemes is Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

GUARANTEED EMPLOYMENT AND KEYNESIANISM

The basic philosophy behind MGNREGS is to provide employment to willing rural families of India. Unskilled jobs are offered to create rural infrastructures like road, village canal, excavation of ponds etc. Creation of infrastructure or its quality is actually of having secondary importance; the main thrust is assigned to the creation of job opportunities, particularly in lean agricultural seasons. Offering of jobs to the involuntary unemployed at a reasonable wage rate is intended mainly to create generation of demand for consumables in rural areas. It is expected that this would produce a series of chain reactions that would help to improve standard of living of rural poor.

Unlike other poverty-eradication-through-employment programmes, at the time of inception, MGNREGS provided the guarantee of employment to the employment seekers. Not only this, to ensure employment, the concerned state governments are subjected to financial obligations if jobs are not offered. This scheme in rural areas is a direct hit to poverty by offering cash employment to the poor and to produce an environment of demand led development. The basis and expected impacts of MGNREGS resembles very much with Keynesian line of thinking. It is felt that it is the deficient demand that is hindering development in rural areas.

Along with entire country Jangal Mahal was also experiencing implementation of this programme.

PROBLEM OF APPLICABILITY

Theoretically, Keynesian line of development strategy is intended to be better operative in an economically developed environment. Economically developed in the sense, that sectoral distribution of national produce has attained its required level. Not only this, economy would show sufficient development in all the relevant markets, i.e. labour market, goods market, financial markets are to be fully developed. In such set up if deficient demand is countered by public actions then that are expected to generate new demand for goods and services by injecting money income in the economy. Unlike classical prescriptions in this model it is assumed that there are no supply sided bottlenecks in the economy. It is presumed here that economy is at under-employment equilibrium level. Classics on the other hand were stick to the idea that equilibrium always remained at full employment level and for that reason they did not consider demand management as a possible tool to counter depression.

According to Keynes, if equilibrium exists at a level below full employment then additional demand for goods and services will certainly be matched by increased employment and output given that economy is free from any other type of non-economic rigidities. It is also assumed that additional output will be forthcoming without involving considerable price rise. This is possible in a situation where supply is moderately elastic or at least non-inelastic. To fulfil this condition potential goods and services, expected to be demanded, either should have to be locally produced or their supply lines are to be quite flexible.

Hence, success of Keynesian prescription depends largely on supply side response against increase in demand. The then USA or some European countries certainly had such structure. But the structure of Jangal Mahal was hardly comparable to those countries. This area of west Bengal even failed to resemble itself with other parts of the state. At present I keep aside several issues related to impoverishment of inhabitants of the area. Let us just concentrate on theoretical inconveniences to implement MGNREGS at Jangal Mahal.

As is evident the scheme is being implanted in the area along with other parts of the country. After each employment cycle these families would end up with an additional amount of money. In a backward region like Jangal Mahal, where a good number of families failed to arrange for two times daily meals, this money would be used to create demand for wage-goods only. If supply of such goods was readily available improvement of standard of living of the inhabitants would be forthcoming following Keynesian framework. Unfortunately, Jangal Mahal is not a case of such stereotype inferences.

FACTORS BEHIND INAPPLICABILITY

Compared to other parts of west Bengal this area possesses some different characteristics.

- The area is highland and it is an extended part of undulating chhoto-nagpur plateau. Outer surface is covered by red loamy soil, which is infertile in nature and capacity to contain water is low.
- Acute shortage of healthy drinking water and irrigation water is seen in most of the places.
- Agriculture is mostly monsoon dependent and multiple cropping is almost inexistent in the area.
- Inadequate employment in agriculture and almost non-existent other employment opportunities compel villagers to engage in petty works like collection of dry woods and leaves.
- Population has high Tribe and backward class domination.
- Acute shortage of mass public transport facility exists.
- The area was disturbed initially by extremist forces and then oppressed by state forces.

Above features do not match with any so-called developed society. The oppressive situation of Jangal Mahal is not the reflection of business cycle downswing; rather it is the result of long inaction of the government.

END NOTES

Both central and state governments are trying to withdraw from direct productive activities. Government policies are steadily shifting from indirect approach to direct approaches. Without waiting for trickle-down effect to work, direct intervention to develop from below is gaining importance as a part of the strategy of inclusive growth. Under normal conditions increase in purchasing power by means of govt. sponsored schemes in backward areas has certainly improved capability of inhabitants to consume food and basic needs. But Jangal Mahal is a special case where injection of money alone in the form of wage employment cannot provide minimum food, clothing and water to the inhabitants. Consumable in the locality are not readily available and difficulties to import them regularly from nearby towns due to poor connectivity, at a purely unorganised basis, makes injected money useless. Keynesian type of demand management is injecting money but the money is augmenting transaction due to non-availability of necessities within the region.

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