

The Politics and Economics of “Intermediate Regimes”

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R. R. KALE MEMORIAL LECTURE, 1973

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THE POLITICS AND ECONOMICS OF “INTERMEDIATE REGIMES”

IN a paper published in 1964, Professor Kalecki used the term “intermediate regimes” to describe governments in which the lower middle class and the rich peasantry could be identified as performing the role of the ruling class.¹ In the past, he observed, whenever social upheavals brought their representatives to power they had invariably served the interests of big business often allied with the remnants of the feudal system. However, certain conditions had emerged recently in many underdeveloped countries which made it possible for them to play a different role. The specific conditions he cited were the numerical dominance of the lower middle class at the time of achievement of the political independence of these countries, the extensive involvement of governments in economic activity, and the availability to them of credits from socialist countries. Given these conditions, the State could, in his view, perform the role of ‘dynamic entrepreneurs’, undertake the basic investment necessary for economic development, and promote “a pattern of amalgamation of the interests of the lower middle class with state capitalism”.

Professor Kalecki noted also the conditions that had to be fulfilled for intermediate regimes to remain in power. They would have to gain a measure of independence from foreign private capital, carry out land reform, and assure continuous economic growth (the last of which he believed to be closely connected with the other two). The pressures exerted by imperialist countries in support of foreign private capital could be resisted with the help of credits obtainable from socialist countries. Land reform, even if open to evasion, could

¹ This paper, first published in the Polish language was translated into English and published in 1967 in *Co-existence* (Pergamon Press), Vol. IV. It has been recently reprinted in a posthumous publication of Michal Kalecki entitled *Selected Essays on the Economic Growth of the Socialist and the Mixed Economy* (Cambridge University Press, 1972).

be used at least to deprive the feudal landlords of their strong position in political and social life. The intermediate regimes would then be able to promote economic development using the public sector as its main instrument. This, he pointed out, would be highly advantageous for the lower middle class and the rich peasants for three reasons: (a) "state capitalism concentrates investment on the expansion of the productive potential of the country" and there is therefore "no danger of forcing the small firms out of business, which is a characteristic feature of the early stage of industrialization under *laissez faire*"; (b) "the rapid development of state enterprises creates executive and technical openings for ambitious young men of the numerous ruling class"; and (c) "the land reform, which is not preceded by an agrarian revolution, is conducted in such a way that the middle class which directly exploits the poor peasants i.e. the money-lenders and merchants, maintains its position, while the rich peasantry achieves considerable gains in the process".

Professor Kalecki recognized that lower-middle-class governments would have to enter into some arrangements with the native upper-middle-class; that such arrangements might range from "far-reaching nationalization (usually with compensation) to a mere limitation of the scope of private investment coupled with attempts, as a rule rather ineffective, to adjust its structure to the general goals of development"; and that "the choice of the particular variant of dealing with big business is determined not so much by the ideology of the ruling class, as by the strength of the former".² Further, it was his view that the way in which land reform is carried out would limit the potentialities of increasing agricultural output, as small farms would be unable to expand their production under the prevailing agrarian relations. Nor did he expect farm labourers, workers in small factories, or the unemployed and the casually unemployed to benefit perceptibly from the growth process under these conditions. Nevertheless, and this is what is most significant, he thought the system could be politically viable. In fact he saw dangers to it only from strings that might be attached to aid from imperialist countries, as will be evident from the following extracts:

² *Op. cit.* "Without taking into consideration the existing economic conditions, one might expect more 'socialism' from a Nehru than from a Nasser. It was, however, the other way round, because at the time of gaining political independence, big business in India was much stronger than in Egypt".

“..... white-collar workers, and the not very numerous workers of large establishments — who in under-developed countries are in a privileged position as compared with the urban and rural paupers — are frequently, specially when employed in state enterprises, allies of the lower-middle-class rather than its antagonists. The poor peasantry and rural proletariat are controlled by some form of a local oligarchy comprised of the petty bourgeoisie (merchants and money-lenders), the richer peasants and smaller landlords. The urban population without stable employment and even home workers and workers in small factories are not too dangerous either, because they are permanently threatened by unemployment and are difficult to organize”.

“On the international scene, the internal position of the ruling lower-middle-class finds its counterpart in the policy of neutrality between the two blocs..... Such a position in international relations defends the ‘intermediate regimes’ ... against the pressure from imperialist powers aimed at restoration of the ‘normal’ rule of big business in which the foreign capital would play an appreciable role (though more limited than in the past). *Without such external pressures it is highly unlikely that the amalgamation of lower-middle-class with state capitalism would be destroyed and the classical capitalism reinstated*”. (Italics added)

Though changes in the international political situation have generally deprived underdeveloped countries of the kind of leverage in regard to foreign aid they enjoyed a decade ago, Professor Kalecki's analysis of intermediate regimes deserves closer examination. For not only do the social classes (or strata) which stand between the proletariat and the bourgeoisie form the bulk of the population in most of these countries (as in Marx's own time)³ but new forms of

³ “Marx the revolutionary and Marx the dramatist of history developed a dichotomic conception of a class society. Marx the sociologist was compelled in his analysis of contemporary societies to infringe the sharpness of the dichotomic division by introducing intermediate classes. He could not overlook the ‘mass of the nation...standing between the proletariat and the bourgeoisie’. These intermediate classes were a very important element in the pictures of his own era given us by Marx in his historical studies”. Stanislaw Ossowski, *Class Structure in the Social Consciousness* (originally written in Polish in 1957, translated into English by Sheila Patterson and published by Routledge & Kegan Paul in 1963), Chapter V.

political and economic organization, various technological advances, and the now-emerging international political alignments themselves offer a wider range of options to them than were available until the middle of the present century. Whether state capitalism can provide a viable economic basis for regimes dominated by one or more of these classes, what characteristics and tendencies it is likely to develop within this kind of political framework, and how such a system could evolve over a period of time in these countries are therefore still questions of considerable importance today. Their relevance to India needs hardly to be mentioned.

Professor Kalecki's analysis of intermediate regimes, in fact the definition itself, rests on the concept of "the middle class" and the further distinction drawn between the "upper" and "lower" segments of it. One must therefore be clear both about the criteria used in delineating these classes and the precise composition of the classes in any given context.

Historically, the term "middle class" came into use in Britain in the early years of the Industrial Revolution; and, till about the middle of the nineteenth century, it covered the rising industrial entrepreneurs as well as a range of occupations which had a common identity with them (common in the sense that their members rejected the values of both the landed aristocracy and gentry and of manual labourers). For this reason it was at times referred to by Marx as the main class other than the working class which industrial capitalism had given rise to, whose development was in fact a pre-condition for the maturing of the working class movement.⁴ In other contexts, however, Marx listed the middle class as a category separate from industrial capitalists and separate also from the various occupational

⁴ For instance: "The evolution of the conditions of existence for a numerous, strong, concentrated and intelligent proletarian class goes hand in hand with the development of the conditions of existence for a numerous wealthy, concentrated and powerful middle class. The working class movement itself never is independent, never is of an exclusively proletarian character, until all the different factions of the middle class, and particularly its most progressive faction, the large manufacturers, have conquered political power and remodelled the State according to their own wants". K. Marx, *Revolution and Counter-Revolution in Germany* (September 1851).

Again, in *The Civil War in France* (1871), Marx referred to the "liberal German middle class, with its professors, its capitalists, its aldermen and its penmen", implying that the capitalists were a part of the middle class.

groups that have elsewhere been treated as part of it.⁵ There is therefore some ambiguity about the concept in Marxist literature itself.

The reasons for this ambiguity could be two. One is that the extent of differentiation called for when describing and explaining particular historical situations is usually very much more than might be essential in analytical models designed to draw broad generalizations about economic and social change. The other is that, in a period of transition, no rigorously-defined criterion or norm might be adequate to capture all the relevant characteristics of the prevailing social structure.⁶

There should not however be any scope for ambiguity when a whole set of important hypotheses, as about intermediate regimes, rests on this concept of "the middle class". In this particular case it is evident that, since Professor Kalecki visualized the alliance in these regimes as basically between the lower middle class and the rich peasantry, and referred also to their "numerical dominance",⁷

⁵ Thus Marx identified the following among those who, in opposition to the proletariat, supported the republican constitution in France in 1849: "the aristocracy of finance, the industrial bourgeoisie, the middle class, the petty bourgeois, the army, the lumpenproletariat organised as the Mobile Guard, the intellectual lights, the clergy and the rural population". Cf. *The Eighteenth Brumaire of Louis Bonaparte* (1852).

⁶ "The perception of a stratified social structure divided into 'lower, middle and upper classes', which are not understood as a simple gradation, would appear to be brought into use at times when new hierarchies are taking shape after an estate is overcome, and when the concept of 'high society' ceases to be identified with the closed circle of the hereditary aristocracy". (p. 45).

"There is such a wide variety of social statuses and economic positions in these intermediate classes that it is difficult to confine them within a uniform scheme. The term 'intermediate classes' suggests a scheme of gradation. And in fact one sometimes finds in Marx's writings the conception of the intermediate classes as groupings of individuals occupying an intermediate position in the economic gradation in respect of their relation to the means of production, or to the variety of their social roles and sources of income", (p. 76). *Op. cit.* Ossowski.

⁷ It may be observed in passing that the need for achieving numerical dominance, and the possibility of doing so with the support of "the middle strata of society", had been mentioned by Engels when discussing the outlook in Germany and France towards the end of the nineteenth century. "They (the German workers) supplied their comrades in all countries with a new weapon, and one of the sharpest, when they showed them how to make use of universal suffrage... In France, where for more than a hundred years the ground has been undermined by revolution after revolution, where there is not a single party which has not done its share in conspiracies, insurrections and all other revolutionary actions; in France, where, as a result, the government is by no means sure of the army and where, in general, the conditions for an insurrectionary *coup de main* are far more favourable than in Germany — even in France the

he had in mind as part of the lower middle class not only small proprietors in agriculture, industry and commerce (dependant to some degree on hired labour) but a wide spectrum of the self-employed (whose dependance on wage labour, if any, could only be marginal). A large number engaged in professions such as medicine, clerical and administrative work and teaching (whether self-employed or working as employees) must also have been included among the lower middle class. On what criterion, one may ask, can they (and they alone) be lumped together in one category? Obviously it cannot be done simply in terms of a defined range of income since grouping according to income levels alone does not fit in well with any analysis which seems to link classes with the Marxist concept of the "relations of production".

There is however one connected set of criteria which can help: whether any income is earned from property, if so what is the nature of the production relationship which entitles the owner to that income, and how large is such income relatively to income from own labour. All those who have some income from property, earned along with input of own labour, and such income is not large relatively to the income from work, may be included among the lower middle class (or, to avoid confusion with the existing looser uses of this term, they may be called "the intermediate classes").⁵

Socialists are realizing more and more that no lasting victory is possible for them, unless they first win the mass of the people, that is, in this case, the peasantry. The two million voters whom it (the German Social-Democracy) sends to the ballot box, together with the young men and women who stand behind them as non-voters, form the most numerous, most compact mass, the decisive 'shock force' of the international proletarian army. This mass already supplies over a fourth of the votes cast. If it continues in this fashion, by the end of the century we shall conquer the greater part of the middle strata of society, petty-bourgeois and small peasants, and grow into the decisive power in the land before which all others will have to bow whether they like it or not". Introduction (written in 1895) by F. Engels to Marx's *The Class Struggles in France, 1848 to 1850* (first published in 1850).

⁵ This corresponds closely to the first of the two types of trichotomous division of social classes referred to by Ossowski. "In constructing his theoretical system, Marx set up the foundation for another conception of the class which occupies the intermediate position between the class of capitalists and the proletariat. This conception was not in fact formulated in its final form by either Marx or his pupils. It is nevertheless related to the scheme of class structure of the capitalist society that is characteristic for Marx and Marxism, a scheme in which three social classes correspond to three kinds of relations to the means of production. In this scheme the intermediate class, which Marx usually calls the 'petit bourgeoisie' regardless of whether reference is being made to urban

Traditionally, in Marxist (as in non-Marxist) literature, property has been taken to include only those in tangible assets such as land, machinery, commodity stocks and financial assets. However, since possession of certain kinds of knowledge and skill (administrative, managerial, scientific, technical etc.) makes it possible to earn an element of quasi-rent, in much the same way as ownership of any other asset, it would not be inappropriate to treat them also (particularly under certain sociological conditions) as property taking a different form.⁹ If we do so, the income of those belonging to all such or rural dwellers, is determined by the simultaneous application of two criteria. . . . One criterion is the ownership of the means of production . . . the second criterion is work . . . the intermediate class consists of those who belong to both the overlapping categories; those own the means of production and themselves make use of them. Marxism applies still another version of this trichotomous division . . . In it the first criterion of division (the ownership of the means of production) remains the same. On the other hand the second criterion is not work but the fact of not employing hired labour. In this version, the intermediate class is more narrowly defined than the earlier one Sociologically speaking, the first version is more suited to describe some conditions, the second more suited to others *Op. cit.* Ossowski, pp. 76-77.

⁹ The broader definition of property (or means of production) suggested here is not only in line with the recent tendency in economic analysis to distinguish between human and material capital but would help to resolve the kind of conflict between functional economic criteria and sociological criteria which both of the trichotomous Marxist classifications (referred to in the earlier footnote) would lead to. An example of this kind of conflict, and its implications, has been clearly pointed out by Ossowski: "In this functional scheme . . . it is not the degree of wealth that determines the boundaries between classes but the social roles, namely their relation to the means of production, work and their relation to the hiring of labour . . . A strict observance of functional economic criteria in distinguishing the three classes — capitalists, petit bourgeoisie, and proletariat — leads, however, to conflict with sociological criteria. For instance, an engineer would in his capacity as hired labour in a capitalistic establishment have to be included amongst the proletariat, as would a doctor employed in a sanatorium The proletariat is a man who is unprotected from the extremes of exploitation by any special qualifications which would prevent him from being replaced by another worker with equal physical strength. According to Marx's intentions, this criterion would exclude the engineer or doctor from the class of the proletariat". *Op. cit.*, pp. 78-79.

Moreover it needs to be recognized that, in Marx's life-time, the organization of higher education, scientific research, and of the application of the results of scientific research for production had not taken the form of an industry as now. If it had been, he might well have included in his schema of reproduction another compartment called perhaps "the knowledge industry" and given a part of it much the same kind of role as capital goods industry. Such an extension of Marx's scheme, in regard to the "forces of production", might also help to understand better the role the State plays in capitalist countries by heavy subsidization of "R & D" activity in private sector (through the education and defence budgets) as well as the reasons for some of the similarities between the social structure of capitalist and socialist countries.

professions can be regarded as partly from property and partly from work; and a large number would consequently qualify for inclusion among the lower middle class (or the intermediate classes), a part even in the class above.

The ruling class in intermediate regimes, as postulated by Professor Kalecki, consists however not only of the lower middle class (understood to mean, as indicated above, the intermediate classes between capitalists and workers) but of the rich peasantry as well. The rich peasant is usually identified with one who organizes production with hired labour (unlike 'landlords', who depend mainly on rentier income) but puts in very little labour of his own, and might also be deriving other property income from activities such as money-lending. It might be politic under certain conditions for the lower middle class (or even the proletariat)¹⁰ to enter into temporary (or permanent) alliance with the rich peasantry (exactly as with capitalists forming part of the native middle class); but it is necessary to recognize that, once the rich peasantry is accorded the status of being part of the "ruling" class, the resulting regime cannot any longer be regarded as one dominated by interests of even a broadly similar character. In other words, the class-composition of such intermediate regimes (analysed in terms of production relations) is likely to be heterogeneous to the point of there being very little in common between its two main constituents. Questions such as who wields effec-

¹⁰ "Most of the rich peasants in China let a part of their land, practise usury, ruthlessly exploit the farm labourers and are semi-feudal in character. But generally the rich peasants engage in labour themselves, and in this sense they are part of the peasantry. Their production activities will remain useful for some time to come. And generally they might contribute some effort to the anti-imperialist struggles of the peasant masses and may stay neutral in the agrarian revolutionary struggles against the landlords. Therefore we should neither consider them as of the same class as of the landlords nor adopt prematurely a policy of liquidating them". This position, as stated by Mao Tse-Tung in 1939 (Cf. "The Chinese Revolution and the Chinese Communist Party", Chapter II, *Selected Works of Mao Tse-Tung*, Volume Three), was substantially maintained even in 1950 after the Revolution. For instance, the Agrarian Reform Law promulgated by the Central People's Government in June, 1950 laid down that "land owned by rich peasants and cultivated by themselves or by hired labour and their other properties shall be protected from infringement". Only if portions of land rented out by rich peasants "of a semi-landlord type" exceed in size the land tilled by themselves and by their hired labour was such land to be "requisitioned". In an explanatory section, dealing with the differentiation of class status in the countryside, it was also pointed out (perhaps in defence of this policy) that "exploitation by rich peasants is of a constant character".

tive power, or who has the upper hand, and what it is used for in practice, assume then very considerable importance.

More particularly, in this context, one might ask what it is that makes both the lower middle class and the rich peasantry support state capitalism. According to Professor Kalecki it is partly the fear of displacement in the process of unfettered private capitalist development and partly the new opportunities that might be opened out for them by state enterprise. But state capitalism — which, it has been suggested, could serve as the main interest for advancing their interests — may itself take many forms and have very different kinds of impact on the rate and pattern of development and consequently on the classes affected by it. One has therefore to consider what are the important functions state capitalism may or may not perform, how they are likely to affect the different classes identified here, and what would most probably happen under intermediate regimes dominated by the lower middle class and the rich peasantry.

One important function the state can perform is of course that of 'dynamic entrepreneurs', promoting development by undertaking investment. But the areas in which it chooses to do so may differ, along with notions of what constitutes "basic investment" and whether or not the supplementary investment should be undertaken by it as well. This would to a large extent determine the character and impact of state capitalism, for through these and other related policies it could either promote or suppress the development of particular interests in different sectors of the economy.¹¹ The other im-

¹¹ It is interesting to observe that Lenin regarded the interests of small producers and of state capitalism to be wholly antagonistic to each other. "Clearly, in a small-peasant country, the preponderating element must be the petit — bourgeois element, nor can it be otherwise, for the majority and the great majority of the tillers of the soil are small-commodity producers. Hence, the shell of state capitalism (grain monopoly, state-controlled producers and traders, bourgeois cooperators) is pierced, now in one place, now in another, by *profiteers*, and the chief object of *profiteering* is grain.... Money is a certificate entitling the possessor to receive social wealth; and a vast stratum of small proprietors, numbering millions, cling to this certificate, conceal it from the 'state'.... The petit bourgeoisie, hoarding their thousands, are the enemies of state capitalism.... When the working class has learned how to defend the state system against small-owner anarchy, when it has learned to build up a great, nation-wide state organisation of production on state capitalist lines, it will have.... all the trump cards in the hands, and the consolidation of socialism will be assured". Cf. V. I. Lenin, 'Left-Wing Childishness and Petty-Bourgeois Mentality' (May 1918), *Selected Works*, Volume 7, (Laurence & Wishart).

portant function the state could perform is to help mobilize and enlarge the volume of investible surpluses in the economy. But here again there are various possibilities: for it may choose to depend mainly on foreign aid for its investment requirements, or opt for increasing the surpluses in the private sector rather than the surpluses accruing to itself, or follow an aggressive policy of increasing its own surpluses and at the same time tapping the surpluses accruing in the private sector. The choices made in practice in regard to both functions, and the evolution of state capitalism itself, are likely to depend how the various elements in the ruling class tend to align themselves on the relevant issues and who gets thereby the upper hand over a period of time.

Intermediate regimes are not likely to face any serious conflicts of interest as long as the intervention of the public sector is confined to investment in irrigation and power, transport and communication, and the like. If it enters industries like steel, coal and fertilizers — all of which are essential inputs for expanding agricultural and industrial production — there may still not be serious opposition (particularly if state capitalism in these industries operates in a way that is complementary rather than competitive to the development of both small and large enterprises in the private sector). Should the state venture to take over banking and other financial institutions it could arouse opposition from the larger private enterprises that have effective control over them but, compared to the smaller entrepreneurs in the private sector who welcome it,¹² those in opposition are likely to be an infinitesimally small number; in any case, if it does not lead to any significant restriction in the flow of funds to them (as may well prove to be the case), such opposition can be expected to wither away (and possibly turn into embarrassing support!). Extension of state enterprise even into wholesale trade might be acceptable if it has only the effect of stabilizing prices at a higher level than would otherwise be the case; it tends to arouse strong opposition only if attempted at a time when prices are rising

¹² This was the case even in the United States in the nineteenth century. "Thus the nationalization of banks is an almost universal demand, and North American populists have supported all sorts of state-owned developmental measures that an unprejudiced European would call socialist, and indeed all sorts of nationalizations other than land". See Peter Wiles, "A Syndrome not a Doctrine: Some Elementary Theses on Populism", in *Populism* edited by Ghita Ionescu and Ernest Gellner (Widenfeld and Nicolson, 1970).

and appears to be against the interests of small producers and traders.

In fact there are likely to be no direct *political* constraints on the growth of the public sector under intermediate regimes, unless it seems likely to come in the way of the growth of small and medium-scale enterprises in agriculture, industry, commerce, transport, etc. or when they affect adversely the larger private establishments in which the interests of a sizable section of the "upper middle class" (with which these regimes might be in partial alliance) are involved. The more serious and effective constraints can be expected to be *economic* in form (though indirectly traceable to political factors).

The one thing that all state enterprises have to do is to purchase inputs and sell the output. Since intermediate regimes are dominated by (or are in partial alliance with) numerous social groups who could secure considerable gains in the process, they are invariably under pressure, sometimes from one group and sometimes from another, to follow price policies which in effect subsidize one segment or the other of the ruling class and its main allies. Such subsidization is in fact the main method available to these regimes for retaining the support of this somewhat heterogeneous mass. Very little investible surplus is likely to be thrown up by state capitalism under these conditions; and a stage might be reached fairly soon when it is either wholly or largely dependant on foreign aid for its expansion or becomes stagnant.

Such problems which state capitalism has to face in regimes dominated by the lower middle class and the rich peasantry assume different forms. A common experience is that the more "basic" the investment undertaken by the state, the lower generally is expected to be the price charged for the product relatively to the price that might be fixed on the usual economic criteria. This is a reflection of the biases of the ruling class in the sense that it tends to judge the comparative advantages of the system to a large extent in terms of prices alone, more particularly in relation to the prices that might otherwise be charged in a private capitalist economy.¹⁸ Whether it is

¹⁸ While pressures in the direction of lower prices exist under other kinds of regimes as well, the notion that public enterprises should yield *profits* and a reasonably high rate of return finds more ready acceptance in capitalist countries, and this acts as a brake on the tendency to lower prices beyond a point. The view that public enterprises should not only yield a reasonable rate of return but that they should be managed strictly on "business and commercial

irrigation water, electricity or steel the main argument against a higher price is that it would hurt "the small man" (even when it is the larger enterprises that are the main beneficiaries).

Again, it is to the interests of the rich peasants to secure as high a price as possible for their marketed surpluses; and therefore, even if agricultural growth is rapid enough to prevent prices rising and being maintained at high levels, political pressures develop from this quarter for price support operations by the government to keep prices high. While the argument is couched in unexceptionable terms i.e. for maintaining stability of prices for the agricultural producers, what is usually achieved in practice is only the maintenance of the floor price at a level high enough to suit the interests of the larger producers, leaving them the option to sell the produce at much higher prices in periods of shortage.¹⁴ Since it would be impolitic to pass

principles", and that their profitability is the index of their efficiency, is in fact often put forward in a form that is indefensible. See, for an unconventional discussion of this question, the John Mathai Memorial Lectures delivered by Professor Amartya Sen, in the University of Kerala in March 1970, on *Profit Maximisation and the Public Sector* (Oxford University Press, 1972).

¹⁴ Since the rich peasants depend to a large extent on hired labour, and they usually supply a larger proportion of their output as marketed surpluses than others, the case for taking into account the costs of such hired labour appears to be obvious once the principle of fixing agricultural prices on the basis of the costs of production is accepted. The argument could be carried further to include all labour input, including the imputed value of the services of family land and labour. "A floor price covering the complete average cost (or the best available approximation to it) would induce the *commercial* farmers, who are actually paying for the services of land and labour, to earn more profit by reducing their cost; and it would give other farmers a cash income over and above their paid-out cost which would improve their capital position and working capacity and enable them to invest and innovate more than before. With the growing commercialization of agriculture, we need a forward-looking floor". Cf. Raj Krishna, "Food Price Policy" *Economic Times*, October 27, 28 and 31, 1964. This argument does not explicitly recognize that (a) it is the larger farmers who would benefit more from such a floor price, since the proportion of marketed surpluses to output is likely to be much higher in their case; and (b) a floor price that would enable smaller farmers to have an assured minimum level of income and consumption could be very different from that which would cover all costs (in the manner defined) for the larger farmers. In India, the Agricultural Prices Commission seems to have formally accepted the criteria of price fixation put forward by Professor Raj Krishna when it made the following observations in 1965: "Price support policy contributes to growth by inducing the farmer to adopt improved technology without fear of an excessive price fall. For providing such insurance, the minimum price should be related to the cost of cultivation, properly defined and measured.... Only the cost of the relatively efficient and innovating farmers is relevant for this purpose". Cf. *Report of the Agricultural Prices Commission on Price Policy for Kharif Cereals for 1965-66*

on these higher prices to the lower middle class (and the workers) in the urban areas, the system ultimately ends up in the state having to provide large subsidies. For this reason the more active the intervention of the state in the market for agricultural products the larger are likely to be the subsidies required, as long as it represents the interests of the lower middle class and the corresponding strata of the peasantry. In fact one can even conceive of situations in which they are higher the higher the rate of growth of agricultural output.

Apart from these seemingly economic compulsions, there are various direct social pressures operating on the state within this kind of milieu. As Marx himself pointed out, small-holding property by its very nature forms a suitable basis for "an all-powerful and innumerable bureaucracy; it also produces "an unemployed surplus population for which there is no place either on the land or in the towns, and which accordingly reaches out for state offices as a sort of respectable alms, and provokes the creation of new posts".¹⁵

It is therefore not merely a question of acquiescing in the demands of rich peasants and of the smaller producers in agriculture, industry, etc. and reconciling their interests with state capitalism;¹⁶ in addition, what it is called upon to do is to support a large and growing body of salary-earners whose contribution to economic growth may be negligible.¹⁷ When such salary-earners organize themselves into trade unions and press for higher emoluments, fringe benefits, etc. intermediate regimes are seldom in a position to resist them and there is therefore a further drain on the investible surpluses available to the state.

If state enterprises are unable to throw up adequate surpluses, because their products have to be priced low enough to provide an indirect subsidy to the users, or an account of their having to sustain

Season (Ministry of Food and Agriculture, Government of India, May-July, 1965), p. 2. The Commission left a little vague what is the proper definition of the costs of cultivation.

¹⁵ *Op. cit.* *The Eighteenth Brumaire of Louis Bonaparte.*

¹⁶ Incidentally, as in the case of agricultural price support benefiting the rich farmers more than the smaller farmers, many of the other policies followed by intermediate regimes of this kind, such as keeping the prices of inputs low, contribute generally more to the development of the "upper middle" class than of the "lower," even if it happens without any deliberate intention to do so.

¹⁷ ".....the state's role as an employer receives greater emphasis than its function as an agent for development — an attitude which in effect reflects the desire of unenterprising middle sectors for job-security in the bureaucracy". See Alistair Hennessy, "Latin America", in *Populism*, *op. cit.*

an excessively high pay-roll, one way of maintaining the process of public investment could be through taxation. In principle it is possible to have recourse to both direct and indirect taxes.

If it is the policy of the state to restrict the growth of the private corporate sector, and of the high incomes associated with it, the scope for direct taxes will to that extent be limited. This would of course depend in part on who are considered to be large manufacturers, and therefore part of "big business" and who are thought to be sufficiently small to be dependable allies of the lower middle class; since the whole concept of "intermediate regimes" rests on a calculated balance of social and political forces, there can be obviously some flexibility in this matter depending on the circumstances of each situation.

Even with such flexibility, the contribution of direct taxes can be commensurate with requirements only if the exemption limit for such taxes is lowered sufficiently to ensure wide coverage and the *effective* rates of tax in the lower ranges are reasonably high. It is doubtful that steps in this direction will be acceptable within a political framework in which the lower middle class and the rich peasantry, on whom the higher incidence of direct taxes will fall, play the dominant role. It often pays intermediate regimes higher dividends — at any rate in the short run — to have steeply progressive rates of taxation nominally applicable to income and wealth in the upper ranges, however self-defeating and infructuous they might be in practice, than much more modest but effective rates of tax on the classes in the lower ranges on whose support they primarily depend.

Consistently with the kind of development that is likely to be promoted by "intermediate regimes", Professor Kalecki has outlined schematically a supporting system of indirect taxation, resting on the distinction between necessities and non-essentials.¹⁸ No taxation is to be imposed on necessities, by which are meant consumer goods that constitute the major part of the consumption of the lower income groups (mainly foodstuffs); indirect taxes are to be levied only on the non-essentials consumed by the richer strata, the rates fixed being raised according to the degree of their inessentiality.

¹⁸ M. Kalecki, "Problems of Financing Economic Development in a Mixed Economy" in *Induction, Growth and Trade: Essays in Honour of Sir Roy Harrod* (1970), edited by W. A. Elitis, M.F.G. Scott and J. N. Wolfe.

This principle and method of taxation is of course well understood. Heavy indirect taxes confined to non-essentials could be a means of checking the consumption of the upper-income groups; and, if the growth of output of the primary foodstuffs is high enough to prevent their prices rising, it should be possible thereby to finance development without generating serious inflationary pressures. The contribution that such a system of indirect taxation can make in practice will depend however on a rigorous definition of "necessities" (following perhaps the criterion that the average income elasticity of demand for such goods would in general be less than one) and on finding reasonably effective methods for administering a system of graded indirect taxes on a variety of non-essential products supplied by both large and small enterprises. It is unlikely that a definition of necessities and luxuries rigorous enough for this purpose will be politically acceptable within the class structure of intermediate regimes. Moreover, even such rigour as is accepted in principle would tend to get diluted in the course of the implementation and administration of the policy. Unless the coverage is wide, and the implementation effective, not much is likely to be realized by way of revenue from taxes on "luxuries".

Still another possibility is that the state might use financial institutions for drawing on private savings and channelling them into public investment. This method of finance rests obviously on the absorption of savings emerging elsewhere rather than on the generation of more savings by the public sector itself. But it could be claimed that this is a more effective way of mobilizing resources for development than taxation in this kind of system, particularly if the rich peasantry and the lower middle class are credited with a high propensity to save. If the financial institutions are part of the public sector, and the savings so mobilized are effectively prevented from being used for lower-priority uses, this could be advanced as an additional justification. But in practice the demands of the public sector, super-imposed on the demands of producers and traders in the private sector, may assume such large proportions that the financial institutions can meet them only by inflationary creation of credit. Moreover, even in the absence of price rises induced by such financing, one cannot be sure of the redistributive effects of the public sector borrowing funds from the private sector for its expansion,

particularly if the tax system which has to be used for servicing the public debt is not adequately progressive in its incidence.

Whatever the possibilities there might be in these directions, it is evident that state capitalism can play the kind of role Professor Kalecki visualized for it under intermediate regimes i.e. a role dynamic enough to avoid re-instatement of "classical capitalism", only if it is able to generate adequate surpluses for its own growth. Then alone can it be an effective substitute for "big business", and meet the challenges it would inevitably face in various spheres from the larger private enterprises within the country and the international companies outside. But to be able to generate adequate surpluses within the framework of state capitalism intermediate regimes should be in a position to deal effectively with the pressures on them working in the opposite direction.¹⁹ This is not simply a matter of the strings attached to foreign aid from imperialist countries (as Professor Kalecki appears to have implicitly assumed); the problems faced by intermediate regimes in this regard are traceable to the class character of these regimes themselves.²⁰ A change in the complexion of their class base may well prove to be a necessary precondition.

It is when the resource constraints on the extension of the public sector become pronounced, and hard choices have to be made, that the conflicts of interest within the intermediate regimes tend to surface. They disappear (or at any rate seem less unmanageable) when there are sharp spurts in output which make it possible to raise public investment without any immediate inflationary effects. It is not

¹⁹ "In its widest sense populism in Latin America can be defined as an organizational weapon to synchronize divergent group interests.....In general, they are neo-socialist but emphasizing redistribution of wealth rather than increasing productivity capacity.....Some observers see populism as the only viable reforming movement in Latin America. Others are more critical and view it as essentially opportunist, concerned only with securing short-term social benefits and privileges for its supporters whilst in the specific case of Brazil it has been seen as constituting a major obstacle to any group wishing to engineer genuine structural reforms: the populist leaders' heterogeneous support and their pressing demands for immediate social benefits force them into compromises which vitiate any long-term planning". *Op. cit.* Alistair Hennessy.

²⁰ These regimes can of course be kept afloat through foreign aid on a scale that makes its contribution a substantial proportion of public investment; but it is unlikely that Professor Kalecki had aid on such scale in mind when he referred to their need for foreign credits. In any case, the possibility of securing aid on this magnitude does not exist now for most countries in this position.

surprising in these circumstances that a high rate of economic growth is often suggested as the main solution. For, if it could be achieved, the resources available to the state could increase rapidly without radical changes in policy. A high rate of economic growth can be realized in underdeveloped countries only with considerable increase in the rate of growth of output in the agricultural sector. It is therefore such acceleration of the growth rate in this sector that is considered to be the key to the whole problem, for then public works programmes and a variety of other measures can be up devised to deal with specific problems. The impact of a high over-all rate of growth, if achieved, can percolate to the lowest-income groups, even those dependant on wage employment, without necessarily a shift in income-distribution in their favour.²¹ Hence policies and measures designed to achieve this end, and for improving the efficiency of investment in general, have sometimes been advocated as the only "relevant radicalism" worth serious consideration in these countries.²²

The main issue here is whether acceleration in growth rates of the order required for this purpose can be achieved, particularly when the assumption made on the social and political side is essentially that the status quo will be maintained. It is of course possible to achieve high growth rates under exceptional circumstances such as

²¹ In an unpublished paper on "Perspective of Development: 1961-1976, Implications of Planning for a Minimum Level of Living", prepared in August 1962 in the Perspective Planning Division of the Planning Commission (Government of India), the following observation was made: "It is difficult to say a priori what degree of inequality is necessary for growth; but a comparison of the distribution of incomes in different countries is suggestive. It shows that in countries at very different levels of development and with varying socio-political environment, the distribution of incomes follows a remarkably similar pattern, especially in respect of the proportion of incomes earned by the lowest three or four deciles of the population. If this hypothesis can be sustained, the income of the poorest segments as a result of spontaneous economic development may be expected to increase in more or less the same proportion as total income in any country. The attainment of a specified level of minimum income within a given period then becomes purely a function of the rate of development". (On this premise it was proposed that, in order to ensure that the third decile from the bottom in India achieved by 1975-76 a minimal level of consumption of Rs. 20 per capita per month, at 1960-61 prices, the net national product would have to grow at a rate of a little more than 7 per cent per annum during the decade 1966-76).

²² See, for instance, the paper by John P. Lewis on "Wanted in India: A Relevant Radicalism", *Economic and Political Weekly*, Special Number, July 1970. Professor Lewis recognized that "bank nationalization was not and is not a first-order issue one way or the other".

discovery of large oil reserves or if there are a series of technological break-throughs in quick succession which enable substantial increases in production to be realized in all or most of the main products in agriculture. Such high rates of growth have been achieved in small countries, especially when for one reason or another, they also serve in effect as service-stations for more industrially-advanced countries. Not only is it highly unlikely that their experience can be repeated in the larger underdeveloped countries²³ but it is doubtful whether regimes willing to put through policies and programmes needed for this purpose will be of the kind postulated by Professor Kalecki.²⁴

Perhaps in response to the experience of the last decade growthmanship is not as much in fashion now as it was. The emphasis has got shifted to redistributive policies in support of what is currently described as a direct attack on poverty. The logic of this approach, particularly of the considerable impact on poverty that less spectacular growth rates can have if only the pattern of consumption and production are changed in favour of the "necessities" (at the expense of the "non-essentials"), is both obvious and persuasive. But the question that arises once again is how such a change can be effected without the state being able to acquire surpluses on a much larger scale and utilizing them differently, and whether it is at all feasible within the power structure of intermediate regimes in which the rich peasantry is part of the ruling class and even the "upper middle class" (who include the native capitalists) could be exercising considerable influence.

Intermediate regimes of this kind are therefore forced into a dilemma, partly by the objective conditions they face and partly by

²³ Professor Lewis not only believed that India needed to make the gross national product grow at the rate of 7 per cent per annum but thought that it was within immediate reach because he was "convinced that Indian agricultural production now is established on (and, with reasonable continuity of policies and inputs can for some time stay on) a growth track of 5 per cent output-expansion per year, compared with the 2½ per cent of 1960-65". Though this was once a view widely shared by other economists as well, it is doubtful whether it has now many adherents, particularly after closer analysis of the performance in this sector has shown what the "green revolution" has and has not been able to achieve. For such an analysis, see Dharm Narain, *Growth and Imbalances in Indian Agriculture* (Indian Society of Agricultural Statistics, March 1972).

²⁴ The experience of Pakistan, once cited as the ideal in this regard, as also of smaller and apparently more fortunate countries like Formosa, the Philippines and South Korea are pointers in this direction.

their own internal contradictions. What still keeps them going as a political reality is perhaps that the upper middle class are not strong enough to take over and those who do not share the status quo assumptions on which these regimes are based have no better alternative to offer.

Since the proletariat is weak and disorganized in these countries, except in limited spheres, no credible alternative can in fact be offered (except perhaps by wholly dictatorial regimes) without the support of at least a wide segment of the lower middle class (or of the intermediate classes as we have designated it). But once such an alliance is established the resulting coalition often suffers from many of the same weaknesses as the regimes that are sought to be replaced. Moreover, as between the different components of the intermediate class, most of those who are better organized and apparently more responsive to radical ideas (such as the administrative and technical personnel belonging to the lower cadres in the public and private sectors, teachers, journalists, etc.) are interested essentially in limited sectarian objectives. Not surprisingly the political elements which favour a more revolutionary approach are faced with the choice between allying themselves with social groups whose commitment is more verbal than truly ideological (in the way they would like it to be) and spending long years in the wilderness organizing forces which are intrinsically difficult to organize.²⁵ More often than not the easier path is chosen, and consequently even professedly revolutionary movements tend to be characterized more by slogans,²⁶ and tactical alliances for achieving temporary gains, than by systematic organizational work at the grass-roots of the kind that could produce results in the longer run.

²⁵ The forces whose support needed to be mobilized were clearly identified in China before the revolution became a reality. "The middle peasants constitute about 20 per cent of China's rural population....The attitude of the middle peasants towards the revolution — whether they are for or against it — is a factor determining its victory or defeat, and this is especially true when the middle peasants become the majority in the countryside after the agrarian revolution. The poor peasants in China, together with the farm labourers, constitute about 70 per cent of the rural population.....only when the proletariat has concluded a firm alliance with the poor peasants and middle peasants can it lead the revolution to victory, a thing otherwise impossible". *Op. cit.*, Mao Tse-Tung (1939).

²⁶ "The flaunting of high-sounding phrases is characteristic of the declassed petit-bourgeois intelligentsia...."*Op. cit.* Lenin. This phenomenon needs no illustration in the Indian context.

The weakness of revolutionary movements arising from the class composition of these countries, and more specifically from the almost inevitable reliance on some segments of the intermediate classes, show up even when they are successful in overthrowing existing regimes and in shifting the balance of power. This is not only because the productive forces embodied in this kind of class structure cannot easily be replaced but instruments such as state enterprises which are used for bringing about transformation have themselves a tendency to generate social groups with much the same characteristics as of those in the "lower middle class". Socialist regimes are, for this reason, in continuous danger of developing some of the characteristics of intermediate regimes though free from the weaknesses introduced by alliance with the rich peasantry.

The highly heterogeneous social structure of underdeveloped countries, and the problems arising therefrom even after revolutionary upheavals, have been recognized.²⁷ The abuses that state enterprises in socialist countries can lead to have also been sharply pin-pointed (even if only as part of political polemics),²⁸ and a number of other forms of organization experimented with. Though interesting and valuable in themselves there is however no conclusive evidence that these insights and experiments have succeeded in

²⁷ "In the conditions prevailing in China today the contradictions among the people comprise the contradictions within the working class, the contradictions within the peasantry, the contradictions within the intelligentsia, the contradictions between the working class and the peasantry, the contradictions between the workers and peasants on the one hand and the intellectuals on the other, the contradictions between the working class and other sections of the working people on the one hand and the national bourgeoisie on the other, the contradictions within the national bourgeoisie, and so on. Our People's Government is one that genuinely represents the people's interests, it is a government that serves the people. Nevertheless, there are still contradictions between the government and the people. These include contradictions among the interests of the state, the interests of the collective and the interests of the individual; between the democracy and centralism; between the leadership and the led; and the contradiction arising from the bureaucratic style of certain government workers in their relations with the masses". Mao Tse-Tung, "On the Correct Handling of Contradictions among the People" (February 1957), reprinted in *Four Essays on Philosophy* (Foreign Languages Press, Peking, 1968).

²⁸ "The privileged stratum in contemporary Soviet society is composed of degenerate elements from among the leading cadres of Party and government organizations, enterprises and farms as well as bourgeois intellectuals.... They are abusing their powers over the means of production and of livelihood for the private benefit of their small clique." Cf. *On Khrushchov's Phoney Communism and its Historical Lessons for the World* (Foreign Languages Press, Peking, 1964).

eradicating the danger. Even China which has impressive results to show does not appear to have yet an organizational framework or procedures for dealing with the problem systematically; for, the Cultural Revolution not only required the active intervention of the army at various stages but ended in a manner that does not bring out clearly to what extent its objectives were in fact realized.²⁹ Moreover, the appeal to social morality which has been considerably in evidence, though certainly important, could also be a symptom of weakness.³⁰

The problems that intermediate regimes face are however significantly different in character, since most of them have yet to find reasonably dependable solutions even for generating the surpluses needed for sustained economic growth. The public sector has served

²⁹ Marxist historians now stress the role of organization in both representing class interests and resolving problems arising out of them. "The crucial problem for socialists is that revolutionary regimes, unlike bourgeois ones, arise not out of a class, but out of the characteristic combination of class and organization.... So long as the organization continues to maintain its automatic general identity with the class, and denies the possibility of more than the most temporary and superficial divergences, the way to extreme abuses, upto and including Stalinism, lies wide open....The stronger the concentration of party-cum-state power, the greater the temptation to ignore or suppress; and conversely, the weaker this concentration, the greater the temptation to strengthen it". Cf. E. J. Hobsbawm, "Class Consciousness in History", in *Aspects of History and Class Consciousness*, edited by Istvan Meszaves (Routledge & Kegan Paul, 1971).

³⁰ In this connection, a prophetic observation made by Bertrand Russell, after a visit to the Soviet Union in 1920, is worth recalling:

"All these difficulties are in no way peculiar to Russia, but are bound to occur in any developed country which attempts a method of development disliked by foreign capitalists. But though the difficulties are great, they are not economically insuperable; by sufficient honesty, determination and energy on the part of the rulers they could probably all be overcome in time."

"This brings us to the moral factors of success. It is here that the Bolshevik programmes are greatest. Few governments in history have had more honesty, determination and energy than the Soviet government; yet it may well be doubted whether even they, in the end, will be found to have enough for the carrying out of their original intentions.....When the Bolsheviks speak of the period during which the dictatorship will have to continue, they seem to contemplate at least a generation. Meanwhile many of the original leaders will have died, while those who remain and those who replace them will have acquired the habit of arbitrary power. The practice of negotiating with capitalists and their governments will tend to produce an acceptance of their assumptions, as it often does in trade union leaders...."

Cf. Bertrand Russell, *The Prospects of Industrial Civilization* (George Allen & Unwin, 1928).

some limited purposes but, on account of the class composition of these regimes and their inability to enforce policies that can generate surpluses, not only is the growth of state capitalism itself blunted but it helps more to promote the development of private capitalism. To some extent the remedies can be expected to emerge from out of the contradictions themselves and the re-alignments they lead to, but given the highly fragmented and heterogeneous character of the social structure in these countries one cannot be sure in which direction the changes will take place. Once the forces of private capitalism gain strength the bureaucratic and military apparatus of the state may well be used, like the instrument of state capitalism itself, to shift the balance of power further in their favour. If such a shift is to be prevented, and intermediate regimes made a transitional phase in the evolution towards a genuinely more broad-based political and economic system, they may need to shed altogether the alliance with the rich peasantry (and the "upper middle class" in general) and secure stronger (and more enlightened) organizational support from among the lower classes. Whether and how such a shift in alignments can be brought about depends however on political processes about which little can be said on the basis of a priori reasoning.

R. B. R. KALE MEMORIAL LECTURES

<i>Lecturer</i>	<i>Subject</i>	<i>Year</i>
1. V. G. KALE	<i>Modern Tendencies in Economic Thought and Policy*</i>	1937
2. G. S. GHURYB	<i>The Social Process †</i>	1938
3. B. R. AMBEDKAR	<i>Federation Versus Freedom †</i>	1939
4. K. T. SHAH	<i>The Constituent Assembly *</i>	1940
5. A. V. THAKKAR	<i>The Problem of the Aborigines in India †</i>	1941
6. V. L. MEHTA	<i>A Plea for Planning in Co-operation †</i>	1942
7. S. G. VAZE	<i>The Formation of Federations; Re. 1.50</i>	1943
8. JOHN MATHAI	<i>Economic Policy *</i>	1944
9. S. R. DESHPANDE	<i>A Statistical Approach to Vital Economic Problems *</i>	1945
10. J. V. JOSHI	<i>India's Sterling Balances *</i>	1946
11. C. D. DESHMUKH	<i>Central Banking in India: A Retrospect †</i>	1948
12. D. G. KARVE	<i>Public Administration in Democracy †</i>	1949
13. H. L. DEY	<i>Policy of Protection in India; Re. 1.00</i>	1950
14. M. VENKATRANGAIYA	<i>Competitive and Co-operative Trends in Federalism; Rs.1.50</i>	1951
15. A. D. GORWALA	<i>The Role of the Administrator: Past, Present and Future; Re. 2.00</i>	1952
16. LAXMANSHASTRI JOSHI	<i>Indian Nationalism *</i>	1953
17. W. R. NATU	<i>Public Administration and Economic Development †</i>	1954
18. P. C. MAHALANOBIS	<i>Some Thoughts on Planning in India *</i>	1955
19. S. K. MURANJAN	<i>Reflections on Economic Growth & Progress; Re. 1.00 †</i>	1956
20. B. K. MADAN	<i>Financing the Second Five-Year Plan; Re. 1.00 †</i>	1957
21. V. K. R. V. RAO	<i>Some Reflections on the Rate of Saving in a Developing Economy *</i>	1958
22. K. P. CHATTOPADHYAY	<i>Some Approaches to Study of Social Change; Re. 1.00</i>	1959
23. B. VENKATAPPIAH	<i>The Role of the Reserve Bank of India in the Development of Credit Institutions; Re. 1.00</i>	1960
24. B. N. GANGULI	<i>Economic Integration: Regional, National and International; Re. 1.00</i>	1961
25. A. APPADORAI	<i>Dilemma in Modern Foreign Policy; Re. 1.00</i>	1962
26. H. M. PATEL	<i>The Defence of India; Re. 1.00 †</i>	1963
27. M. L. DANTWALA	<i>The Impact of Economic Development on the Agricultural Sector; Rs. 1.50 †</i>	1964
28. PITAMBER PANT	<i>Decades of Transition—Opportunities & Tasks*</i>	1965
29. D. R. GADGIL	<i>District Development Planning; Rs. 1.50</i>	1966
30. S. L. KIRLOSHKAR	<i>Universities and the training of Industrial Business Management; Re. 1.00</i>	1967
31. E. M. S. NAMBOO- DIRIPAD	<i>The Republican Constitution in the Struggle for Socialism; Rs. 1.50</i>	1968
32. J. J. ANJARIA	<i>Strategy of Economic Development; Rs. 2.00</i>	1969
33. RAJNI KOTHARI	<i>Political Economy of Development; Rs. 2.00</i>	1971

* Not Published. † Out of print. No lecture was delivered in 1947 and 1970 (Postage extra)