

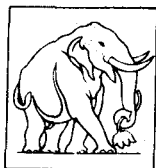
INDIA'S MIXED ECONOMY

BALDEV RAJ NAYAR

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*The Role of Ideology and Interest
in its Development*

BALDEV RAJ NAYAR



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Preface

India has a mammoth public sector. How this public sector came to be created and expanded is the central concern of this study. The study is a work in political economy, that is, it is concerned with the interaction of economics and politics. Unfortunately, the neglect of economics and economic problems has been characteristic of political scientists; equally, the neglect of political aspects of economic issues has been characteristic of economists. However, this work is rooted in the belief that more is to be gained in understanding the social reality of India's public sector by examining the interaction of economics and politics.

This study takes an agnostic posture toward ideologies on the interaction between economics and politics. That the position taken in this study may at some points coincide with some version of Marxism, while at other points with some version of liberalism, is simply a result of contingent appreciation of their instrumental utility. But otherwise, by and large, the study may be considered to be a dialogue with various schools of thought. Although the subject matter of the study tends to be surrounded by passionate controversy, the present work essentially aims not to be controversial but a serious contribution to the ongoing debate on the role of ideology and interest in policy. It is the first study which consciously and analytically examines the role of ideology and interest in the creation of India's public sector over the entire stretch of India's post-independence development, and does so systematically against the larger canvas of theory. If in the process it has tended to be long, that is a result of attempting to bring empirical evidence to bear on the issues in a thorough manner, for the purpose is to advance, not opinion, but knowledge.

No rigorous theory is available on the political economy of the public sector. Accordingly, the study attempts to cast the theoretical net wide in Chapter I and embed the examination of the public sector in the historic confrontation of rival ideologies, the epochal process of modernization and development, and the nature of the state. That chapter deals comprehensively with questions both of causes and performance but the empirical part of the present study concerns itself only with *causes*. It leaves the question of a rigorous evaluation of performance aside for future research, perhaps by other scholars. Chapter II elaborately examines the nature of the Indian state. The baffling and bewildering variety of interpretations revealed therein leads compellingly to an empirical and historical examination of the conflict between the social and political forces arrayed for and against the creation and expansion of the public sector. In this empirical examination, Chap-

ters III, IV and V relate to the Nehru period. Among these, Chapter III examines the role of class in the nationalist movement, the development of Nehru's ideological thought, and his relationship to the capitalist class; Chapter IV is an analysis of the Nehru model of socialism and how it came to be implemented; especially noteworthy is Chapter V, which looks at the contrasting posture of the Indian bourgeoisie and the communist movement towards Nehru's model of socialism.

In a further extension of the empirical examination, Chapters VI, VII and VIII cover the period of Mrs. Gandhi in office. They pay special attention to questions concerning the role of ideology: among them, Chapter VI, examines the break-up of the Congress party and its roots in and consequences for opposed conceptions of the economic order; Chapter VII is the most thorough analysis so far of the process of nationalization under Mrs. Gandhi; and Chapter VIII takes as its focus the retreat from the radical course amidst economic crisis in the mid-1970s and subsequently its continuances in the early 1980s. Chapter IX discusses the consequences of the cumulative decisions for the size and status of the public sector; the chapter intends not to furnish the most up-to-date data on the subject but to suggest the larger emergent pattern. Finally, Chapter X provides the overall conclusions of the study.

The manuscript was revised during the summer of 1986, but understandably individual chapters are likely to bear the imprint of the time when they were initially written. Chapters I and II were written during the summer of 1983, Chapters III-V during that of 1984, Chapters VI-VIII during that of 1985, and Chapters IX and X during the summer of 1986. To facilitate reading, each chapter is divided into several sections; each also carries a summary at the end. Since footnotes are bunched together at the end of the each chapter, no separate bibliography has been included; however, an author index has been provided.

I have benefited immensely from the painstaking and penetrating comments on different parts of the study by Professors Stephen Bornstein, Michael Brecher, Thomas Bruneau, Dipankar Gupta, Jagdish Handa, Frank Kunz, Samuel Noumoff and Donald von Eschen, and Mr. Ashok Nigam. To all of them, but particularly Michael Brecher and Donald von Eschen, I am extremely grateful. Besides, I am especially indebted for financial support for research to the Social Sciences and Humanities Research Council and to McGill's Social Sciences Research Grants Committee. Without the generous word-processing facilities of McGill University, it would have been difficult to complete this study. I owe special thanks to Mr. P.N. Malik, Administrative Director, Shastri Indo-Canadian Institute, New Delhi, for his generous assistance in so many most ways during the course of the research. A past debt owed to Mr. R.R. Gulati, Department of Science and Technology, Government of India, for his many kindnesses and selfless help is here gratefully placed on record. Although not named here, the many officials and non-officials in Indian economic and political life have continually educated me over the years by sharing their knowledge and wisdom; no research would ever have been possible without their generous cooperation and help.

The vagaries of publishing have considerably delayed the coming out of this

book until 1989. But it is just as well that it should be published in Nehru's centenary year since much of the book deals with Nehru and with his socialist project. The momentous changes that have taken place in regard to the economy in the Soviet Union under Gorbachev since the book was initially written, though not incorporated in the opening theoretical chapter, are consistent with, indeed confirm, the basic thrust of the present work. I hope to examine in another study the changes in India's posture toward economic policy and the public sector under the Rajiv Gandhi administration.

BALDEV RAJ NAYAR

January 7, 1989

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Chapter I

National Development and the Public Sector

The rationale for -- and evaluation of -- the public sector in a country's economy and polity, especially in the Third World, is entwined with questions about both consummatory and instrumental values.¹ From the perspective of consummatory values, the presence or absence of the public sector is related to, indeed identified with, the vision of society to be built. It is, as a consequence, entangled with the conflict among the world's great political ideologies that has raged in the modern era, but especially since the Russian revolution.

As a phenomenon of the modern age and the rationality characteristic of it, ideology provides an explanation of man's social condition; further, it offers a this-worldly prescription about replacing that condition with a morally more desirable one but distinctively, as a secular successor to religion, it demands a thorough-going commitment to the explanation and to purposive action to follow through with that prescription.² In origin, modern ideologies may have been rooted in contemporary social compulsions but they often continue to evoke a religious-type allegiance against which there can be no appeal, even though the historical process as it unfolded may have brought into question their intellectual assumptions and social predictions. At times, the original ideological paradigms may themselves have undergone substantial modification or decay in the course of actual implementation in specific social contexts, but their advocates, especially elsewhere, often continue to take extreme positions on their truth value or validity.

From the perspective of instrumental values, the public sector is linked with its possible role in the efficient management of the economy. Especially in the Third World, it is tied up with the advancement of modernization or development, the historic summary goal for underdeveloped countries in the present epoch. With amazing prescience, Marx had stated more than a century ago that "the country that is more developed industrially only shows, to the less developed, the image of its own future."³ Of course, in the pioneer industrial country of Great Britain, development may have initially taken place as a spontaneous process, but since then all countries that have developed have done so under the sponsorship of the state. It became the historic function of the state to sponsor development, with industrialization as its core, once it was accomplished in the pioneer country, but the question of the appropriate role for the state in this process still continues to be a contentious issue. Should the state be merely a regulator of the development process, relying on the private sector for managing the actual process, or should it be also entrepreneur, owner and manager of the means of production? Or, should

it combine reliance on both the private and public sectors?

At issue is the relative efficacy of the public and private sectors as instruments in the development of economically backward societies. However, this issue cannot be completely de-linked from ideology, which may in fact be the governing consideration in many cases. To be sure, in actual life, consummatory and instrumental values, ideology and efficacy, may be difficult to disentangle; indeed, ideology itself may encompass the requirements of efficacy, but the two may also be in conflict, especially as time passes. Therefore, they need to be analytically distinguished in any examination of the impact they have on policy-making and the implications they hold for the continuation or alteration of settled policies. In this chapter, three aspects of the issue are considered at some length: (1) the ideological context in terms not only of the conflict between different paradigms but of the substantial modification that has actually come to characterize them; (2) the historical compulsions for economically backward nations to accord a high priority to development and a central role to the state in it; and (3) the relationship of social class to state power and, therefore, to the requirements of development. This comprehensive perspective is indicated by the absence of any rigorous theory on the political economy specifically of the public sector.⁴

1. The Ideological Context : The Historical Dialectic versus the Invisible Hand

The public sector refers to that set of the means of production which is deemed to be owned by society as a whole and is managed through the organized institutions of society, such as the state. As a mode of economic organization it is contrasted with the private ownership and management of the means of production in capitalism. Although states have run some economic enterprises in the past for economic and other reasons, in the modern era the public sector as a morally desirable order of things is associated with the ideology of socialism which, in turn, is related to the thought of Karl Marx. What Marx really said or meant is a contentious issue, for he wrote prolifically and over an extended period of time. Here, what he was believed to have said by the early Marxists, both orthodox and revisionist, is taken as the point of departure.

Marx : Social Ownership and Comprehensive Planning

Marx's analysis and critique of capitalism was set in a broader conception of the movement of history : the operation of a dialectic propelled mankind through a succession of qualitatively different but progressive stages of societal development. The motor force in this movement was property-based class conflict whose two critical characteristics, for Marx, were (1) its bipolar nature, pitting the class of exploiters against that of the exploited; and (2) its zero-sum nature where, in an exploitative relationship, the gain of one is necessarily the loss of the other.

In the contemporary stage of societal development, Marx thought that — beset by a series of crises resulting from the basic contradiction between the *social* organization of the forces of production and the *private* appropriation of economic

surplus — capitalist society would, of necessity, become increasingly polarized between a narrow exploiting class of the bourgeoisie or capitalists owning the means of production and the increasingly exploited class of the proletariat or workers constituting the bulk of society. In counterpoint to Adam Smith, in whom the anarchy of the market would lead to hitch-free benign results through the invisible hand, Marx held that capitalism's inherent contradictions would result in its inevitable breakdown.⁵ Eventually, the proletariat, fueled by its increasing misery and its rising class consciousness, would overthrow the capitalists through a revolutionary seizure of power. However, if, for Marx, the model was the earlier bourgeois revolution, there would seem to be no warrant for optimism on the score of the proletariat enacting a socialist revolution; the dynamic agent of that bourgeois revolution lay outside the feudal mode of production, while the proletariat lies within the capitalist mode of production. In actuality, it has turned out to be the case that the proletariat has not been the vanguard of revolutions made in its name.

In any case, the enactment of the proletarian revolution was conditional on capitalism having earlier exhausted the possibilities of further advance in the productive forces of society, that is, on capitalism having fully replaced the pre-capitalist modes of production and thus having made the proletariat into the large majority of the population. To enact a revolution before then would naturally be adventuristic. This stance, however, became a contentious issue in the Marxist movement in Russia, which split up between Mensheviks and Bolsheviks, with the latter insisting that it was unnecessary to wait until capitalism had fully replaced feudalism. At any rate, for Marx, the proletariat would, after the revolution, launch the new social and economic order of socialism, based not on private profit but directly on the social good.

As a result of the work of Marx, a powerful mystique developed around the notion of the proletariat. On the one hand, his discussion of capitalist exploitation in the pursuit of private profit evokes nothing but compassion for labour and therefore sympathy for its deliverance from misery and "universal suffering" through revolution. On the other hand, Marx argued that what is morally desirable is, indeed, scientifically inevitable, and that in the accomplishment of it the proletariat will assume the role of saviour of mankind, delivering humanity from the perennial scourge of exploitation of man by man. The result was an apotheosization of the proletariat. In the new classless society of communism that the proletariat was expected to bring about, there will be no private ownership of the means of production, while production and distribution will take place without the mediation of money and market; instead, there will be "comprehensive planning" to organize economic affairs.⁶ Such a society will be established after a transitional period of the dictatorship of the proletariat in order to remove the vestiges of the old order. Once it is established, this society will entail the withering away of the state — the organized instrument of domination — and the cessation of the operation of the historical dialectic, with mankind finally coming to rest in the communist stage.

However, although such a society would represent a tremendous social achievement, it is clear that it would be so only in distribution, not at production.

In regard to the latter, it is manifest that communism was dependent on the dirty work of establishing the productive forces having already been accomplished by capitalism. Where violent revolutions have occurred in the name of Marxism, such as the Soviet Union and China, however, the state has not withered away but rather has become total in the scope of its activity. Nonetheless, insofar as these revolutions involved the abolition of capitalism, there has come into being state or public ownership of the means of production, with the state apparently assuring the social or public interest directly through a centrally planned economy.

In addition to the revolutionary route, Marx and Engels envisaged an alternative road to socialism by way of an increasing expansion of the public sector under pressure from the working class in political systems based on adult franchise. But this was strictly by way of exception as a possibility in the cases of England and America, not as a general expectation, nor as undermining their overall conclusion on, and call for, the revolutionary path.⁷ Bernstein and Kautsky, however, made this alternative route the centrepiece of their political position.⁸ Through this route socialism would emerge in a painless manner; the anarchy of capitalism would in the end be replaced in an evolutionary way by state ownership of the means of production and by central management of the economy on the basis of economic rationality, informed by social purpose rather than private profit.

Smith: The Self-Regulating Market and the Absentee State

In his advocacy of the public ownership of the means of production and the replacement of private profit by social good as the guiding motive in economic activity, Marx had prescribed a course that was in direct ideological opposition to that of Adam Smith, the supreme advocate of laissez faire capitalism. Smith had posited only a restricted role for the state in economic affairs. No doubt, he allotted important functions to the state which were critical for the efficient functioning of the economy, but basically his prescription was that of a hands-off policy for the state in relation to direct participation in economic activity. However, Smith was not insensitive to the public interest or social good; indeed, that interest was central to his intellectual framework, but the mechanism for its achievement was decisively different. Of course, Adam Smith had preceded Marx by about three-quarters of a century; his targets were the mercantilists, but his prescription could just as well have been addressed to Marxists of a later era with their commitment to the public ownership of the means of production.

Rather than locating the public good in activity directly motivated by concern for it, Smith saw its most optimal manifestation in the unintended but enormously benign consequence of the pursuit of self-interest. For him, self-interest was the surest way of achieving the public or social good. Smith acknowledged that, insofar as the businessman was concerned, the community's interests "never enter into his thoughts" and his sole concern is "his own private profit," but "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."⁹ For Smith, the self-seeking of the businessman is automatically converted into the social good through the mecha-

nism of the market which comes into being naturally in society as a "consequence of a certain propensity in human nature...the propensity to truck, barter, and exchange one thing for another." Man engages in this activity not to promote the social good but his own interest. However, the end result is economic benefit for the community: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."¹⁰ Self-seeking men are, as it were, led by an "invisible hand" through the operation of the market to serve the general welfare. Out of private vice thus comes public virtue.

Unoperated by any authority, the market is, for Smith, an amazing mechanism for coordinating the myriad economic decisions and activities of countless consumers and producers; sensitive to demand and supply, it produces automatically economic organization and social harmony out of their self-seeking pursuits. It is the "invisible hand" of the market -- with its "automatic adjustment", "perfect liberty" -- that assures optimal allocation of society's resources and therefore the maximum output and the greatest economic growth, thus promoting the welfare of the community. The businessman will, of course, seek to invest his capital in areas of the greatest demand and therefore of the greatest profit, but "the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society." The lower classes gain, too, from the allocative mechanism of the market, for the maximization of output provides more and better employment and advances their living standards.¹¹

Thus, the market assures not a zero-sum but a positive-sum game, where everybody gains, even if not in the same proportion. This, of course, is not the result of anyone willing it to be so but because of the operation of a free market. Indeed, Smith was not naive about businessmen; as a philosopher, he had a natural distrust of "the mean rapacity, the monopolizing spirit of merchants and manufacturers," bent on restrictive practices with the intent of raising prices; he held that "their interest is, in this respect, directly opposite to that of the great body of the people" and warned that "people of the same trade seldom meet together -- but the conversation ends in a conspiracy against the public." However, Smith, like Marx later, was interested not in private motive but social result. Central to his system for assuring the social good was therefore not simply reliance on private enterprise but competition.

The public interest as a function of self-interest, the social good as a result of personal greed, achieved through the instrumentality of the market's invisible hand -- a conceptual equivalent to the dialectic of Marx -- was an extraordinarily profound but counter-intuitive idea. It was not unknown before Smith, but it was his genius to have systematized it and to have made it the foundation stone of his economic science. Those countries in Europe and North America which appropriated this idea as the basis of their economic systems, regardless of the many modifications subsequently introduced into them, came in due course to dominate the rest of the world economically, militarily, and politically, precisely because of the explosion in wealth and power that those economic systems made possible.

From the notion that the competitive market as a vast but self-adjusting machine was the ideal mechanism for assuring the public good -- the theory of a pre-deter-

mined social harmony¹² —flowed a strong case against state intervention. Reisman sees several reasons in Smith for reducing the role of the state in the economy:¹³

(1) The state's ignorance in matters economic leads to the selection of wrong policy goals and policy instruments and to the neglect of the right ones, the resulting misallocation of resources harming producer, consumer and labour alike. State action is also likely to fall under the influence of special interests, thus harming the public interest. (2) The state is likely to waste capital, for its officials are given to extravagance: "They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will." (3) Since the state is dependent on a bureaucracy, its economic activity will therefore necessarily be characterized by inefficiency and mismanagement: "The agents of a prince regard the wealth of their master as inexhaustible; are careless at what price they buy; are careless at what price they sell." The reason for this is that there is no incentive to perform well since their reward or salary does not depend on performance: "Public services are never better performed than when their reward comes only in consequence of their being performed, and is proportioned to the diligence employed in performing them." Smith held the system, not individuals, as responsible for inefficiency and mismanagement: "It is the system of government, the situation in which they are placed, that I mean to censure; not the character of those who have acted in it. They acted as their situation naturally directed." (4) State activity that runs counter to or transcends the natural economic order will be either unenforceable or lead to perverse results. Thus the imposition of high import duties "presents such a temptation to smuggling, that all the rigour of the law cannot prevent it," while high taxation is likely to lead to evasion and outflow of capital.

However, it needs to be understood that the state in Smith was not bereft of all functions; he did not reject it nor envisage its withering away. He singled out three functions that were of particular importance: (1) defence; (2) administration of justice; and (3) public works (roads, bridges, canals, ports) which are "in the highest degree advantageous to a great society."¹⁴ However, the burden of Smith's message to the state was *laissez faire*, let it be, and he demanded the elimination of the system of state controls and state-sponsored monopolies that were part of mercantilism in favour of reliance on the efforts of individuals in an atomistic but self-regulating market. The operative concepts in Smith, however, were the state and individuals;¹⁵ he was less sensitive to the constraints on economic activity, and therefore welfare, that may come from the power of structures in between the two. It is with these latter in the form of corporations and trade unions that society would have to contend with subsequently under capitalism.

The Revenge of History

On the foundation of the assumptions, theses and predictions of Marx and Smith, there arose fundamentally opposed ideological movements and economic systems known as socialism and capitalism. However, the actual course of history has brought into question the constitutive principles of their respective doctrines, indeed

a drastic decay or erosion of the basic paradigms constructed by them.

In Respect of Capitalism

As far back as 1858, Marx had proclaimed that "on the Continent the revolution is imminent and will immediately assume a socialist character."¹⁶ The astounding fact, however, is that during the century and more that has passed since, there has been no revolution in any advanced capitalist society. The survival of capitalism over this period, regardless of the post hoc rationalizations provided by Marxists, is a development that stands in dramatic contradiction to the prognosis by Marx. Amazingly, capitalism developed structurally in such a manner as to undermine both the assumption of the bipolarization of social stratification and that of the zero-sum game.

Instead of social bipolarization there took place what Dahrendorf has called the decomposition of classes.¹⁷ On the one hand, labour became stratified into unskilled and skilled strata. Consisting of workers with special skills in management and technology, and differentiated by their higher income and status, the skilled strata identified themselves more with the interests of the owners of the means of production than with a generalized working class. With the development of this "new middle class", society in advanced capitalist countries did not divide itself into two opposed segments, a cleavage which is, as Marx correctly saw, productive of societal breakdown, if not revolution; rather, conflict was mitigated by precluding division of society along a single central axis.

On the other hand, with the rise of the corporation as the characteristic type of business organization, there took place not only the diffusion of ownership of capital but, more importantly, a disassociation between ownership of capital and management control of the corporation ("late capitalism"). The displacement of the individual capitalist -- with his singleminded pursuit of profit and commitment to capital accumulation ("early capitalism") -- by the corporation also mitigated capital-labour conflict. Unlike the individual capitalist-owner, who directly and personally appropriated whatever could be squeezed out of labour, the manager did not directly and personally benefit from keeping labour's wages low, and consequently tended to be less negative in relation to labour's demands; after all, managers, too, are employees of the corporation and the future of all rests on the success of the corporation, thus the necessity for cooperation between management and labour which assumes the form of a periodic negotiated settlement. The relationship between labour and management therefore came to be transformed into a variable-sum rather than negative-sum game.

Beyond the decomposition of classes -- a structural development which had not only not been foreseen but one which directly contradicted the social prognosis proclaimed by Marx -- there was additionally the critical role of politics in moderating social conflict. Marx had simply neglected politics as an independent variable, assuming it to be merely an epiphenomenon of the economic base. But the actual course of history has demonstrated the autonomous strength of the political variable in modifying the operation of the forces of the capitalist market. This is decisively manifest in three respects: (1) the countervailing collective power of labour; (2) the welfare state; and (3) the "mixed economy" -- all made

possible because the state came to have a broader social base than simply the capitalist class.

The rise of the corporation as the leading form of business organization was paralleled by the rise of the collective power of labour in the form of the trade union movement. This resulted, as political parties in representative systems sought the electoral support of the working class, in labour being able to achieve higher living standards, greater job security and better health, pension and unemployment benefits, and also to obtain state protection for its rights and interests. Marx had attributed to a pauperized proletariat the class interest of making a revolution for a new society, but labour has instead chosen to act in a reformist fashion to improve its position as an integral part and partner of capitalism, seeing mutual (though still unequal) advantage in cooperation. Indeed, management and labour in the "managed capitalism" of the "mature corporation" can, apart from countervailing against each other, as well act in collusion, with management buying social peace through high wage settlements in favour of labour and then passing the cost to the public.¹⁸

Some Marxist scholars have, of course, sought to rationalize this development by holding that "the bourgeoisies of the center learned through historical experience that a situation that allows the standard of living of the proletariat to rise over time (a stable rate of surplus value combined with rising productivity) is not only functional but even indispensable for the operation of the system as a whole." Further, they maintain that, "alarmed by the revolutions of 1848, the ruling classes of the advanced capitalist countries began to reconsider their strategy, responding to the struggles of the workers more flexibly and discovering in the process that the new course paid both political and economic dividends."¹⁹ But the point is that this development was not provided for in Marxist theory and could not have been provided for, without bringing into question the whole conceptual edifice of the inevitability of revolution. Beyond protection for labour, but in part through labour's political organization and its electoral strength, there came to be created also the "welfare state" which provided a minimum living standard for all citizens through income transfers and common social services.²⁰ In the words of a Marxist scholar, "The rise of welfare state capitalism is an irreversible development....The recent advances of labour therefore constitute a historical conquest which cannot be undone by democratic means." Surprisingly, "in advanced capitalist countries today, between one fifth and one third of all household income derives from public revenue and not from property or labour."²¹

Howsoever much Adam Smith and his successors may have praised the benign functioning of the invisible hand, and howsoever momentous the contribution to human progress may have been as a result of it, the market nonetheless imposed significant costs on society and groups within it. These included the externalization of costs that resulted from unregulated competition among profit-maximizing firms in a capitalist economy, such as in the case of damage to ecology. Furthermore, public interest could be, and was, hurt through the emergence of monopolies exploiting economies of scale but dictating prices and barring entry to new firms. Again, to protect the larger public interest the state resorted to regulation of economic activity, as in the case of smoke emissions, restrictive trade practices, excessive market shares, and high rates for public utilities. However, as time went

on, the state's role in the economy developed further than that. This was spurred by the social havoc inflicted by capitalism through its periodic crises, especially during the 1930s. Here, history did not uphold the virtues of the invisible hand for vast segments of the population; rather, for them the hidden hand, regardless of its long-term potentialities, was a veritable carrier of deprivation and doom. Again, the state was seen as the appropriate instrument for correcting and mitigating the ravages of the business cycle.

The theoretical rationale for state intervention in the economy to augment aggregate market demand in order to pull out of, and in future prevent, economic slumps was provided by Keynes, but in actual fact the state had already intervened in the 1930s in several economies, such as in Germany, for this purpose. Keynes, however, occupies a key place in the history of economic thought. Whereas Adam Smith thought (before industrialization was really a fact) that capitalism automatically would function harmoniously and while Marx envisaged that capitalism would inevitably confront crises and eventually breakdown, Keynes believed that crisis-ridden capitalism could be fixed -- through demand management by government. The Keynesian "revolution" made possible for a quarter of a century after World War II a reconciliation between business and labour, by assuring a continued profitable investment environment to the former and a high level of employment to the latter. Since then, state intervention through various fiscal and monetary instruments has become a routine aspect of the national management of the economy.

Some among the advanced capitalist countries, such as France, however, went beyond this to make such national management of the economy part and parcel of a more comprehensive central economic plan. Indeed, economic planning assumed considerable importance, becoming "the most characteristic expression of the new capitalism. It reflects the determination to take charge rather than be driven by economic events."²² And as one scholar observes: "The French government surely plans more than the Yugoslav, and only a little less than the Hungarian."²³ Subsequently, even Germany, while avoiding the rhetoric, came to follow the French in economic planning.²⁴ Furthermore, beyond regulation and intervention, many advanced capitalist countries, but especially Italy, France and Great Britain, have gone in for extensive state ownership of economic enterprises through nationalization or otherwise, and have used this state ownership as an instrument for a more effective control of the economy. These enterprises extend beyond public utilities and at times cover whole industries, such as coal and steel in Great Britain. In the case of Austria, the public sector accounts for 20 per cent of GNP and 25 per cent of exports.²⁵ Ideology has, of course, played some role in the establishment of state ownership, as in Great Britain after World War II, but in many cases contingent causes have been at work in the creation of a "public sector".²⁶ In any case, a substantial public sector as an integral part of the national economy can no longer be said to be a function of socialism alone.

Through the cumulative impact of state regulation, intervention, planning and ownership, there has, for some, taken place a significant transformation of capitalism and what exists is not strictly a capitalist economy but a "mixed economy", with some of the malign features of capitalism allegedly removed. Indeed,

modern capitalism and "mixed economy", incorporating both large public and private sectors, have become equivalent terms. A new model of capitalism seems to have evolved. Surprisingly, governments now handle 40 per cent of GNP on the average among the advanced industrial countries.²⁷ In one group of OECD countries in 1982, public expenditure constituted the dominant part of GNP (Sweden 64%, Denmark 60%, Netherlands 59%, Belgium 52%, and France 52%) while in another group it was somewhat below half (Canada, Austria, Germany, Ireland, Italy, Norway and UK).²⁸ Even the Marxist scholar Miliband, whose intent is to downplay the significance of the change, acknowledges that "the scale and pervasiveness of state intervention in contemporary capitalism is now immeasurably greater than ever before, and will undoubtedly continue to grow; and much the same is also true for the vast range of social services for which the state in these societies has come to assume direct or indirect responsibility."²⁹ Whether capitalism has, indeed, transcended itself and has evolved into "an altogether *different* system (and, needless to say, a much *better* one)" may be a debatable issue, but socialism, especially through revolutionary means, seems to provide little attraction for the vast majority of the masses of the advanced capitalist societies. No extant socialist society constitutes a model for the advanced capitalist societies outside scattered groups of university academics. Rather, it is the advanced capitalist societies that are the model for other industrialized countries as is demonstrated by the one-way movement of people out of socialist countries notwithstanding the stringent barriers against it.

The attractiveness of the modified capitalist model derives, first, from the extraordinary advance in productive forces, and therefore material welfare of the masses that it has made possible in the postwar period. Continuing a tradition first established by Marx and Engels in the Communist Manifesto with their unexcelled praise of the achievements of the bourgeoisie, Schumpeter about a hundred years later could not resist being dazzled by its accomplishments. Undeterred by the depression years, he wrote in 1942 that "if capitalism repeated its past performance for another half century starting with 1928" -- and he had no doubt that it would, provided anti-capitalist policies were not followed -- "this would do away with anything that according to present standards could be called poverty, even in the lowest strata of the population, pathological cases alone excepted".³⁰ Of course, standards change and the sense of poverty perhaps can never be removed, while experts would undoubtedly differ over definitions of poverty, but that capitalism has provided unprecedented levels of mass welfare in material terms -- whatever the social and psychological costs of urbanization and industrialization -- there can be no doubt about. If Schumpeter prophesied that eventually but inevitably capitalism would metamorphose into socialism, it was so because of its achievements, not because of its failures, with the corporation making capitalists superfluous because of the "evaporation of the substance of property." It is interesting that the Marxist scholar Brus also sees a strong "continuity in the relationship between capitalism and socialism," a progressive evolution in the development of productive forces from (1) the individual capitalist-entrepreneur, to (2) the modern large capitalist corporation, to (3) the public sector, to (4) socialism.³¹