ECONOMIC REFORMS AND THE COMMON MAN IN INDIA

Mainak Bhattacharya* Ambar Nath Ghosh**

Abstract: This study is based on the hypothesis that the capitalist countries are fully under the control of the capitalists and so is India. Using this postulate, this study shows that reforms in the financial sector coupled with forcible acquisition of land of the small producers and decline in public investment in agriculture bring about a cumulative shrinkage of the unorganized sector enabling the capitalists to grab the market of the unorganized sector and also a larger part of the GDP for their own consumption and investment. This is a matter of grave concern since about 99 percent of Indians derive their livelihood from the unorganized sector, most of the Indians will be threatened with extinction.

Keywords: Economic Reforms, Capitalists, Common Man

JEL Classification Code: E20, E22, E26

Introduction

India adopted the New Economic Policy (NEP) in 1991 replacing the Nehru-Mahalanobis Strategy (NMS) of economic development. The NEP is being implemented in India since 1991 through a series of Economic Reforms. The objective of the NEP is to privatize all the public sector enterprises and to establish free market by removing all kinds of restrictions and regulations of the NMS era. In other words, the objective of the NEP is to handover all the capital and natural resources of the country to the capitalists (the giant businessmen who control India's corporate sector) and to give them a free hand in running and managing their businesses. We will examine here the implications of some of the Economic Reforms for the capitalists and the common man. The question that naturally emerges here is why the Government of India is implementing the NEP and why the political parties in India have accepted the NEP. This is surprising because India is a democratic country where the political party that gets majority of the votes gains State Power. Under such circumstances, one would expect the political parties to work for the workers and small producers who

* Assistant Professor, Loreto College, Kolkata, E-mail: mainkbh4@gmail.com ** Professor, Jadavpur University, Kolkata, E-mail: ambarghosh@gmail.com

Time's Journey/ISSN : 2278-6546

constitute more than ninety-nine percent of the people. The capitalists are just a handful in number. If capitalists produce all the goods and services, interests of the capitalists and the workers clash. If the capitalists fail to keep the workers under control, the workers will force the capitalists to raise their wages to such levels that the profit will cease to exist and eventually the workers will take over the business empire of the capitalists. The capitalists prevent this from happening by usurping State Power. The political parties do not have any source of income of their own. However, it requires an enormous amount of fund to form and run a political party. A political party requires a nationwide network of workers, command over all kinds of media etc. The larger the amount of fund at the disposal of a political party, the greater is its competitive strength. Obviously, only the capitalists have the resources to form and run political parties just like their nationwide or worldwide business enterprises. The capitalists do so(as they have to do so to save their business empire from the masses) and through these political parties they usurp State Power. The capitalists, who are just a few in numbers, have to be united to protect their enormous business empire and wealth from the masses. They use the State Power to keep the workers under control. They also ruin the bargaining strength of the workers by keeping the growth rate of aggregate production at such a low level that the rate of growth of jobs falls short of the rate of growth of the labour force. They also continuously incorporate automation in the production process to reduce their dependence on workers. In these ways, the capitalists create large and growing unemployment to destroy the bargaining strength of the workers. [for details of the view presented above, go through Ghosh and Ghosh (2019^a, 2019^b)]. This is the reason why all the political parties who come to power in India try to implement the NEP, which seeks to hand over the country to the capitalists at an enormous cost to the masses.

The point to note in this context is that the capitalists who control India are not the Indian capitalists, but the capitalists of Western Europe and the USA. The reason is the following. India is completely dependent on the Western Europe and the USA for knowledge and technology. It has no knowledge and technology of its own. Let us illustrate this claim using the example of teaching and learning economics in India. Almost all the text books students study are foreign text books. All the journals teachers refer to are foreign. All the computers and software the students use for statistical analysis are foreign. Thus, all the knowledge inputs and high-tech inputs used in teaching economics in India are imported products. This is true not only of economics but also of all other subjects. Thus, to set up a university or college in India, all the high tech inputs and all the knowledge inputs have to be imported. This is true not only of universities and colleges but also of any modern production facility in India. Thus, for example, to set up a bank, all the computers, software and all the high-tech machines have to be imported. This makes India's production and investment highly import intensive. India has to import on a large scale foreign essential intermediate inputs such as petroleum and petroleum products, fertilizer, chemicals, components and spares. Thus, to sustain even modest levels of production and investment, India has to import on a very large scale. On the other hand, as it produces its goods and services with imported knowledge and technology, its ability to compete in the world market and, therefore, its export potential are extremely limited. Clearly, India cannot get itself going. It is the western capitalists (capitalists of western Europe and the USA) who get India going by placing export orders with India and investing on a large scale in Indian bond and stock market. Thus, the western capitalists are in complete control of India and the Government of India is implementing the policies dictated by them.

The question that automatically comes up at this point is why India initially followed the NMS. The only plausible hypothesis that suggests itself is the following. It seems that the Soviet Union funded and promoted nationalist movements all across the colonies as a part of their war against the Capitalist Bloc. The Congress, which led the nationalist movement in India, perhaps received support from the Soviet Union. The British capitalists on the other hand followed the divide and rule policy and perhaps formed and promoted the religious fundamentalist parties in India to weaken the nationalist movement. This is possibly the reason

why India got divided and Pakistan, upon gaining Independence, joined the Capitalist Bloc, while India under the leadership of the Congress adopted the NMS, which is based on the Soviet model of planned economic development. However, when the Soviet Union lost the Cold War, the capitalists in all probability conquered the Congress and forced it to adopt the NEP [for details, go through Ghosh and Ghosh (2019^a, 2019^b)].

The purpose of this paper is to show how the Economic Reforms through which the NEP is being implemented is benefitting the capitalists causing immense suffering and misery to the rest of the Indians. We have developed a simple model to achieve our objective. Unlike the models in mainstream macroeconomics (both neoclassical and Keynesian), our model has as its basis the following hypothesis. A capitalist economy, instead of being driven by impersonal market forces, is completely under the control of the capitalists who are a united lot. They dictate all the policies of the government. They decide what the levels of GDP and employment would be, what prices the buyers will face, what the level of aggregate investment would be etc. (For empirical support of this hypothesis, one may go through Ghosh and Ghosh (2019^b, Chapter 5 and Chapter 7).) This hypothesis is completely at variance with the mainstream economics (neoclassical and Keynesian), which believes that a capitalist economy does not have a driver. It is driven by impersonal market forces and the objective of economics is to discover the laws these forces obey.

14

The Model

To show how the capitalists rule India, we divide India into two sectors: the organized sector and the unorganized sector. The former consists of the corporate sector, public sector enterprises and large non-corporate private enterprises. The unorganized sector consists of small enterprises including small farming units and cottage and village industries. We will delineate the relevant main features of the two sectors below:

The Organized Sector

Following Keynes(1936), we assume that aggregate output in the organized sector is demand determined and the prices are set by the capitalists and the government. We will not try to explain in this model how capitalists and the government set the prices of their products and simply assume the average price in the organized sector to be given. We will denote the output and the price of the organized sector by *Y* and P_y respectively. From the data given in Tables 1 and 2, we find that the share of the organized sector in GDP has grown steadily in the post-reform period. This means that the output of the organized sector has grown at a higher rate than the GDP in the post-reform period. However, even though the organized sector has grown at a high rate in the post-reform period, employment in the organized sector remained more or less fixed. This implies that along with growth in output, there has been taking place continuously labour saving technological and managerial changes

enabling the producers to expand their output without generating any employment. Hence, we will assume the employment level in the organized sector to be fixed. We will denote this fixed level of employment in the organized sector by \overline{N} . Given these assumptions, the equilibrium condition of the organized sector may be written as follows:

$$Y = Cc. \left(Y - \frac{W}{P_Y} \overline{N} - \frac{Br_0}{P_Y} \right) + C_w r \left(\frac{P_X}{P_Y} \right)$$
$$\cdot \left(\frac{W}{P_Y} \overline{N} + \frac{Br_0}{P_Y} \right) + I + r \widetilde{X}$$
(1)

Let us now explain (1). The expression on the RHS represents aggregate demand for *Y*. We have divided the people who take part in the production of Y into two classes: the capitalists and workers. The capitalists earn profit and we have denoted their fixed average and marginal propensities to consume by C_c . W denotes money wage rate. Workers are under the compulsion to save to tide over periods of unemployment, illness and old age. They hold their entire saving, by assumption, in the form of bank deposits. *B* denotes the stock of bank deposits of the workers outstanding at the beginning of the given period under consideration and r_0 denotes the average interest rate applicable to B and it is, obviously, given in the given period. Br_0 is the interest income of the workers in the given period. Workers' fixed average and marginal propensity to consume is $C_{\mu\nu}$. As workers are much poorer than the capitalists, it is standard to assume that C_{W} is larger than

 C_c . However, the workers allocate their consumption spending between the outputs of the organized sector and the unorganized sector. Consumption goods produced by the two sectors are substitutes. We assume that the workers spend r fraction of their total consumption spending on Y and r is an

increasing function of
$$\frac{P_X}{P_Y}$$
, where P_X

denotes the price of the output of the unorganized sector. I denotes investment of the organized sector. The standard assumption regarding *I* in the mainstream economics is that it is a decreasing function of the interest rate. However, as we have argued above, in a capitalist country, the capitalists have in their complete control all the prices and interest rates. In such circumstances, we consider it reasonable to postulate that the capitalists raise *I* to the maximum possible level so that *Y* is at its full capacity level, denoted \overline{Y} . This they do to maximize their command and use of produced goods and services so that they can use the maximum possible amount of produced goods and services to set up facilities for producing newer varieties of luxury consumption goods, better varieties of existing consumer goods and for making production less labour intensive. We divide the output of the unorganized sector, which we denote by X, into two parts. One part is produced without using any intermediate input bought from the organized sector. We

denote this part of the output by \overline{X} . The other part of its output, which is produced

with intermediate inputs bought from the organized sector is denoted by \tilde{X} . Finally, *a* denotes the requirement of Y per unit of production of \tilde{X} . Since it is not relevant for our purpose at the present, we have not incorporated taxes and government consumption in (2.1). We will incorporate them shortly. Substituting \overline{Y} for Y in (2.1), we rewrite it as follows:

$$\overline{Y} = C_{C} \cdot \left(\overline{Y} - \frac{W}{P_{Y}}\overline{N} - \frac{Br_{0}}{P_{Y}}\right) + C_{W}r\left(\frac{P_{X}}{P_{Y}}\right)$$
$$\cdot \left(\frac{W}{P_{Y}}\overline{N} + \frac{Br_{0}}{P_{Y}}\right) + I + r\widetilde{X}$$
(2)

The Unorganized Sector

We assume that the producers in the sector unorganized are credit constrained. They need loans to buy the essential intermediate inputs from the organized sector. As they have little collateral to offer, they are able to secure only a small amount of loan, which does not enable them to fully utilize the labour, capital and land they have in their command. They produce the output using only family labour. We denote the given amount of loan they are able to secure by L_x . Hence, the amount of X they are able

to produce with the loan is given by
$$\frac{L_X}{aP_Y}$$
.

We also assume that even if the producers fail to secure any credit and buy any input from the organized sector, they are able to produce a given amount of output, which we denote by \overline{X} . If they can secure loan, they can utilize their land and capital more intensively and raise their output above \overline{X} . (For example, farmers can produce some crop in their land using traditional technology and inputs, which they themselves produce. Similarly, weavers and handlooms can produce some clothing without using inputs of the organized sector.) Therefore, the output of the organized sector is given by

$$X = \overline{X} + \frac{L_X}{aP_Y} \tag{3}$$

We further assume that the producers of the unorganized sector keep aside s fraction of their output for selfconsumption and investment and sell the rest in the market. Denoting the market supply of X by X^s, we get

$$X^{S} = \left(1 - S\left(\overline{X} + \frac{L_{X}}{P_{Y}}\frac{1}{a}\right)\right)\left[\overline{X} + \frac{L_{X}}{P_{Y}}\frac{1}{a}\right] (4)$$

Let us explain (4). Quite a large part of the output of the unorganized sector consists of the basic necessities of life such as food, clothing, shelter etc. Since small and marginal farmers cultivate about 85 percent of India's arable land (see NAABARD (2021)), almost the whole of agriculture is a part of the unorganized sector and it is by far the largest segment of the unorganized sector. Since the producers are heterogeneous in terms of their command over land and capital, we consider it reasonable to assume that the larger the X, the greater is the fraction of the producers who will be able to produce more than their subsistence requirement.

Hence, we make S a decreasing function of *X*. The implication of this assumption is that if L_x falls below a certain minimum level, the producers may not be able to pay back their loans and may, thereby, lose their land and capital.

We assume that demand for X in the market comes only from the workers of the organized sector. Denoting it by X^D , we get

$$X^{D} = C_{W} \cdot \left(1 - \Gamma\left(\frac{L_{X}}{P_{Y}}\right)\right) \cdot \left[\frac{W \cdot \overline{N} + Br_{0}}{P_{X}}\right] (5)$$

Therefore, the unorganized sector is in equilibrium when the following equation is satisfied:

$$C_{W} \cdot \left(1 - r\left(\frac{L_{X}}{P_{Y}}\right)\right) \left[\frac{W.\overline{N} + Br_{0}}{P_{X}}\right]$$
$$= \left(1 - s\left(\overline{X} + \frac{L_{X}}{P_{Y}}\frac{1}{a}\right)\right) \left[\overline{X} + \frac{L_{X}}{P_{Y}}\frac{1}{a}\right] \quad (6)$$

We assume that the producers of the unorganized sector use the sales revenue to pay back their loans along with interest. They save the excess of the sales revenue, if any, over the debt service charges in the form of currency to tide over emergencies such as sudden illness, natural calamities, repairing of implements, treatment of animals etc. Since these producers are semiliterate or illiterate and since the bank branches may be located in far off places, the transaction cost of holding their small savings as bank deposits may be prohibitive. We make this

17

assumption for analytical simplicity. Our results will go through even under more general assumptions. Normally, most of these producers are too poor to make any saving. Hence, it is unlikely to cause much harm, if we ignore their saving.

Regarding investment in the unorganized sector, we make the following observation. Most of the small investments made by the unorganized sector producers are produced in the unorganized sector and are included in the s fraction of output kept aside for selfuse. Government supplies the unorganized sector with infrastructure inputs such as water, power, drainage, roads etc.

Our specification of the unorganized sector is complete.

Substituting for \tilde{X} its value in (2), we rewrite it as follows:

$$\overline{Y} = \left(\overline{Y} - \frac{W}{P_Y}\overline{N} - \frac{Br_0}{P_Y}\right) + C_w \cdot r\left(\frac{P_X}{P_Y}\right)$$
$$\cdot \left(\frac{W}{P_Y}\overline{N} + \frac{Br_0}{P_Y}\right) + I + \frac{L_X}{P_Y}$$
(7)

We will now delineate the financial sector.

The Financial Sector

The financial sector consists of the RBI and the commercial banks only. We will henceforth refer to the latter as banks. Both the capitalists and the workers of the organized sector hold their savings as bank deposits. The banks hold a fixed fraction ... of their deposits as cash reserve and lend out the rest. Hence, the supply of new bank loans in the period under consideration, denoted L_s is given by

$$L_{s} = (1 - \dots) \cdot \left[\left(1 - C_{c} \right) \cdot \left(Y - \frac{W}{P_{Y}} \overline{N} - \frac{Br_{0}}{P_{Y}} \right) + \left(1 - C_{w} \right) \cdot \left(\frac{W}{P_{Y}} \overline{N} + \frac{Br_{0}}{P_{Y}} \right) \right]$$
(8)

The capitalists finance their entire investment of the corporate sector with new bank loans. The banks give a given L_x amount of new loans to the producers of the unorganized sector. Therefore, the equilibrium in the financial sector is given by the following equation:

$$(1 - \dots) \cdot \left[\left(1 - C_C \right) \cdot \left(Y - \frac{W}{P_Y} \overline{N} - \frac{Br_0}{P_Y} \right) \right] + \left(1 - C_W \right) \cdot \left(\frac{W}{P_Y} \overline{N} + \frac{Br_0}{P_Y} \right) \right] + b = I + \frac{L_X}{P_Y} \quad (9)$$

In (7), *b* denotes the RBI's new lending to the banks in the period under consideration. It may be positive or negative. If at \bar{r} , there emerges an excess demand for new bank loans, the RBI lends to the banks so that they can meet the excess demand. In this case, *b* is positive. On the other hand, if there emerges an excess supply at \bar{r} , the banks lend out their excess supply of loans to the RBI. In this case, *b* is negative. This is how *r* is kept at by the RBI.

The specification of our model is now complete. It contains four key equations (3), (6), (7) and (9) in four endogenous

variables X, P_x , I and b. We can solve them for the equilibrium values of the four endogenous variables. We can use this simple model to show how the New Economic Policy (NEP), which is being implemented through the process of economic reforms, enables the capitalists to expand their businesses at the expense of the unorganized sector. This is extremely worrying since more than ninety percent of the labour force works in the unorganized sector and the fraction of the labour force engaged in the unorganized sector is also steadily rising. Clearly, therefore, if the organized sector expands at the expense of the unorganized sector, it will increase immensely the poverty and misery of the masses. We will first focus on the implication of financial sector liberalization in this respect.

Financial Sector Liberalization

The NEP came into force in 1991 replacing the Nehru-Mahanobis Proframme (NMP). Under the latter, the ownership and control of the financial sector rested solely with the government. The government administered all the interest rates and directed the financial institutions how much to lend to each of the different sectors so that the plan targets of production and investment were fulfilled. Through this directed credit programme, the government provided the unorganized sector with large amounts of loans at very low interest rates so that the unorganized sector could grow at a fast rate ensuring high rates of growth of both employment and supply of mass consumption goods. The government regarded the unorganized sector as the priority sector and specified the priority sector lending norm which made sure that the producers of the unorganized sector did not suffer any dearth of credit. Under the NMP, the financial institutions were not commercial organizations. They were social organizations and their purpose was to mobilize all the savings of the masses by providing them with completely safe and remunerative avenues of saving and to utilize this saving in such a manner that the plan targets of production and investment were fulfilled. The NEP, however, seeks to dismantle the directed credit programme, make the financial institutions profit driven and privatize the financial sector so that the market forces determine the allocation of resources. In other words, one of the objectives of the NEP is to transfer the ownership and control of the financial sector from the government to the capitalists enabling the latter to determine the interest rates and the allocation of credit across different sectors, firms and individuals. The Government of India (GoI) is seeking to achieve this objective through the process of financial sector reforms. The reforms have already diluted the priority sector lending norms substantially and seek to do away with them altogether. The government has also withdrawn its guarantee of bank deposits, which have made bank deposits unsafe and banks more cautious regarding their lending. We will denote all those factors that make banks more cautious regarding their lending by γ . Using our simple model, we will try to capture the implications of these Economic Reforms and the Common Man in India

changes. At the present, the imposition of Basel norms, which put great emphasis on the risk-weighted capital adequacy ratio, has made profit- driven financial institutions extremely cautious about lending to the small producers, who are financially weak. We, therefore, make L_x a decreasing function of γ and the degree of stringency of the Basel norms, which we denote by w. We also make it a decreasing function of the default rate of the small producers, which we denote by *D*. *D* is made a decreasing function of *X* and an increasing function of $r_{x'}$ where the latter is the interest rate at which the small producers receive loans. Under the NEP, the financial institutions consider it extremely risky to lend to the small producers. Hence, they charge a risk premium, denoted v, on the loans given to the small producers. While the large producers face \bar{r} , the small ones get loans at

$$r_{\rm X} = \bar{r} + v \tag{10}$$

Using (3) and (10), we get

$$D = D(X, r_X) = D\left(\overline{X} + \frac{L_X}{P_Y}\frac{1}{a}, \overline{r} + V\right);$$

$$D_{\chi} < 0, \ D_{r_{\chi}} > 0 \tag{11}$$

From the above it follows that

$$L_{X} = F\left(D\left(\overline{X} + \frac{L_{X}}{P_{Y}}\frac{1}{a}, \overline{r} + V\right), X, W\right) \quad (12)$$

We assume that $F(D(\overline{X}, \overline{r} + v), w, x) > 0$ and $F_D D_X X_{L_x} \hat{0} f < 1$. Under these conditions, we can solve (12) for L_x . We show the solution of (12) in Figure 1 below:



In Figure 1, LL represents (12) and the equilibrium L_x corresponds to the point of intersection of LL and the 45° line. The equilibrium L_x is denoted L_x^0 . Putting this equilibrium value of L_x in (3), we get the equilibrium value of X. Putting the equilibrium value of L_x or that of X in (6), we can solve it for the equilibrium value of P_x . Finally, putting the equilibrium value of P_x in (7), we get the equilibrium value of I.

Using the model developed above, we will examine how an increase in X and W affect X and I. Conversion of banks, which were social organizations under the NMS, into commercial entities, withdrawal of government guarantee of bank deposits andbank frauds raise X, while tightening of Basel norms pushes up W. Thus, we will show here how financial sector reforms have benefited the capitalists at the expense of the masses.

Effect of an Increase in x

We have already said that the financial sector reforms have made banks profit

driven and extremely cautious about lending to the small producers, who are financially weak. Basel norms are becoming more and more stringent over time. The government is also continuously withdrawing its support to the public sector banks (PSBs) through the withdrawal of guarantee of deposits and the consequent introduction of the Financial Regulation and Deposit Insurance (FRDI) Bill, alarming increase in bank frauds and defaults on bank loans by large borrowers. According to RBI's Financial Stability Report 2018 (RBI (2018)), large borrowers accounted for 58.8 percent of gross advances and 85.6 percent of gross non-performing assets of banks. Ironically, however, (for reasons we have already explained), all the factors mentioned above is making the banks more cautious about lending to the small producers. Thus, the process of economic reforms is bringing about a steady increase in x. We will examine its impact below:

Taking total differential of (12) treating all variables other than L_x and x as fixed and, then, solving for dL_x , we get

$$dL_{\rm x} = \frac{F_{\rm x} d{\rm x}}{1-f} < 0 \tag{13}$$

Again, taking total differential of (3) treating all variables other than *X* and L_X as fixed and, then, solving for *dX*, we get

$$dX = \frac{1}{aP_Y} dL_X = \frac{1}{aP_Y} \left(\frac{F_X dX}{1 - f} \right) < 0 \qquad (14)$$

To derive the impact on $P_{X'}$ we take total differential of (6) treating all variables other than P_X and X as fixed, we get

$$dP_{X} = - \, "1. \, dX; \ "1 \equiv \frac{\left[(1-s)+(-s')\right]}{c_{W}\overline{W}\frac{(1-r)}{P_{X}}+r'.\frac{\overline{W}}{P_{Y}}} > 0;$$
$$\overline{W} = \frac{W\overline{N}+Br_{0}}{P_{X}} \tag{15}$$

Taking total differential of (7) treating all variables other than *I*, P_X and L_X as fixed, substituting for dL_X its value $aP_Y dX$ given by (14) and, then, solving for dI, we get

$$dI = -\sim 1. \ dX; \ \sim 1 \equiv a - c_w \ \overline{W} \Gamma' \frac{"}{P_Y} > 0$$
(by assumption) (16)

Let us now explain the process that generates the changes given by equations (13) – (16). Following a given increase in x1 by dx, L_x falls by $dF_1 = F_x dx$. Hence, farmers are able to buy less intermediate input from the organized sector. This

lowers X by
$$dX_1 = \frac{1}{aP_Y}dF_1 = \frac{1}{aP_Y}F_x dx$$
.

This fall in *X*, as follows from (6), lowers marketable supply of *X* by $[(1 -1s) + (-s)]dX_1$ creating that much of excess demand at the initial equilibrium P_X in the market. P_X will rise to remove the excess demand from the market. It follows from (6) that per unit rise in $P_{X'}$ excess demand for the marketable surplus of *X* falls by

$$-\left[c_{w}\overline{W}\frac{(1-r)}{P_{X}}+r'.\frac{\overline{W}}{P_{Y}}\right]. \text{ Hence, } P_{X} \text{ rises}$$

by $dP_{XI} = - "^{1}dX_{1}$ and equilibrates the market for *X*. The decline in *X* by dX_{1} , as follows from (2.7), produces two opposite effects on *I*. First, it lowers demand for *Y* by adX_{1} . On the other hand, the rise in P_{X}

raises r and, thereby, brings about an increase in the demand for Y by –

 $\left[c_{w}\overline{W}\Gamma'\frac{u}{P_{Y}}\right]dX_{I}$. In the net, demand for

Y, by assumption, falls by $\sim .dX_1$ allowing the capitalists to raise *I* by $dI_1 = - \sim .dX_1$. This completes the first round of transactions. The fall in *X* in the first round raises the default rate of the producers of the unorganized sector. This will induce the banks to lower supply of loans to the producers of *X* and L_X will go down in the second round, as follows from (2.12), by $dF_2 = F_D D_X dX_1 \equiv aP_Y .f. dX_1$. This will reduce *X* by $dX_2 =$

 $\frac{1}{aP_Y} dF_2 = f \cdot dX_1$. This fall in X, the same

way as happened in the first round, will raise P_x in the second round by $dP_{x_2} = -$ " dX_2 . The fall in X and the consequent increase in P_x in the second round, as happened in the first round, raises I by $dI_2 = - \sim .dX_2$. Similarly, in the third round, L_x will go down by $dF_3 = aP_yf.dX_2$ $= aP_yf^2.dX_1$. This will lower X by dX_3 $= \frac{dF_3}{aP_x} = f. dX_2 = f^2 . dX_1$. This in turn will

raise P_x and I in the third round by $dP_{x3} = - IdX_3$ and $dI_3 = - - .dX_3$. This process of changes will continue until the fall in L_x that takes place in each successive round eventually falls to zero. Thus, the total contraction in X and the total increase in I are given by

$$dX = dX_1 + f \cdot dX_1 + f^2 \cdot dX_1 + \dots = \frac{dX_1}{1 - f}$$

$$=\frac{\frac{1}{aP_{Y}}F_{x}dx}{1-f}$$
(17)

$$dI = - dX_{1} - dX_{2} - dX_{3} - \dots = -dX_{3}$$
(18)

Note that (17) and (18) tally with (14) and (16), respectively. The adjustment process described above explains the results given by equations (13) – (16).

The financial sector reforms are making the financial institutions profit driven and inducing them to regard the small producers as extremely risky borrowers even though the large borrowers are responsible in the main for both bank frauds and defaults. The financial sector reforms, therefore, have also brought about an increase in the risk premium on the loans given to the small producers. Following the analysis chalked out above, one can easily deduce that a given increase in the risk premium denoted v in (12) or a tightening of Basel norms indicated by an increase in w, will also bring about a cumulative contraction in the output of the unorganized sector and a cumulative increase in the level of investment of the capitalists.

The above analysis yields the following proposition:

Proposition 1: Financial sector reforms are a weapon at the disposal of the capitalists to increase their market share at the expense of the unorganized sector creating mass unemployment and poverty. These reforms also allow the capitalists to grab a larger fraction of the GDP for their own use at the expense of the masses.

In order to fully appreciate the implications of the cumulative contraction in the output of the unorganized sector following the financial sector reforms, one has to take into account the following facts. From the data given in Tables 1 - 4, we find that the organized sector employed only 6 percent of the work force in 2004-05. The employment in the organized sector had been virtually stagnant during 1994 -2014, while the labour force had been growing at the rate of more than 2 percent per year during 1999-00 to 2004-05. There is no reason to believe that these trends have reversed since then. Hence, it may be safe to say that close to 99 percent of the Indians derive their livelihood from the unorganized sector at the present and the percentage of people surviving on the unorganized sector is rising steadily. Under these circumstances the cumulative contraction in the output of the unorganized sector due to the financial sector reforms is a cause of major concern. It will lead to a substantial increase in the level of unemployment and poverty threatening the survival of the ordinary Indians.

Deregulation of Prices

During the Nehru-Mahalanobis era, prices of all the essential industrial goods were administered by the government. The government exercised control even over the prices essential agricultural items through the Essential Commodities Act. The objective of the government during

this period was to keep the prices of all essential goods and services fixed. Under the NEP, sweeping reforms are taking place in this area. The government is withdrawing its control over prices. In 2020, even the Essential Commodities Act has been amended to give the capitalists complete freedom in setting prices. The date given in Table 5 show that the inflation rate in the advanced capitalist countries has been positive in every year during the period 2010 - 2019 and the inflation rate in India has been substantially higher than that in the advanced capitalist countries. The question that automatically arises is why prices increase continuously in capitalist countries. The mainstream economics does not seem to have a clue. It has two theories of inflation: the demand pull and cost push. According to the former, the continuous increase in prices should be due to continuous emergences of shortages of goods and services in general at the prevailing set of prices. Why such shortages should arise The continuously? answer that mainstream economics gives is the following. It regards inflation as a monetary phenomenon and argues that if money supply grows at a faster rate than what is warranted by the rate of growth of GDP, shortages of goods and services will arise at the initial set of prices and prices will rise. However, it cannot explain why such a situation will arise continuously in capitalist countries.

Let us now focus on the cost push theory of inflation. It identifies an increase in the

average cost of production as the cause of price increase. Let us now examine whether it can explain continuous increase in prices in capitalists countries. Organizations where production is carried out are called firms in economics. Consider all the firms, most of which are owned by the capitalists, all across the world together as a single giant firm. How does it produce goods and services? It hires workers to produce goods and services and pay them wages. It also borrows workers' savings and use them to finance its expenditures. It pays the workers interest on their savings. Therefore, wage payment and interest payment to the workers constitute the cost of production of the giant firm. According to the neoclassical cost-push theory, an increase in either the wage payment or the interest payment or both made by the giant firm per unit of output produced by it raises the unit or average cost of production, which in turn leads to an increase in the price level. This explanation is also untenable. For their survival, the capitalists have to keep the workers under their control and ruin their bargaining strength. They do so, as we have pointed out earlier, by usurping the State Power and by incorporating automation in the production process all the time to create large scale and growing unemployment. They also keep the growth rate at such a low level that the rate of growth of jobs falls short of the rate of growth of the labour force. Thus, through the exercise of State Power and creation of large scale and growing unemployment, capitalists have ruined completely workers' bargaining strength.

Workers have no say in the determination of the wage rate or the interest rate. They have to accept whatever wage rate and interest rate the capitalists offer them. Thus, the capitalists set the wage rate and interest rate. Obviously, they set them at the lowest possible levels. Moreover, labour requirement per unit of output is falling continuously because of the relentless incorporation of labour saving technological changes in production. As a result, workers' income and, therefore, their saving and lending per unit of output are also falling continuously. Hence, the unit cost of production given by the sum of unit wage and interest costs paid out to the workers is falling continuously in capitalist countries. Neoclassical costpush theory, therefore, fails to explain the continuous surge in prices in capitalist economies.

In what follows, we will explain why prices rise continuously in capitalist countries. To comprehend it, one should note that the capitalists are a closely knit united small class of people. They set the prices and prices rise continuously because they deliberately raise it continuously. Why do they do it? We will explain it below. We will show that the capitalists use prices as an instrument of exploitation. By raising prices the capitalists grab a larger fraction of the GDP for their own use at the expense of the masses.

To avoid unnecessary mathematical complications and to put our result in the sharpest possible relief, we will treat r and s as fixed in the present case. However, our result would have gone through even

if we had dropped these simplifying assumptions. We first focus on $L_{X'}$ which is one of the most important determinants of *X*. To derive the impact of a given increase in P_Y on $L_{X'}$ we take total differential of (12) treating all variables other than L_X and P_Y as fixed and, then, solve for dL_X . This yields

$$dL_{X} = \frac{-F_{D}D_{X}\frac{L_{X}}{aP_{Y}^{2}}dP_{Y}}{1-f} = -\frac{f\frac{L_{X}}{P_{Y}}dP_{Y}}{1-f} < 0$$
(19)

We will now focus on *X*, whose equilibrium value is given by (3). Taking total differential of (3) treating all variables other than *X*, L_X and P_Y as fixed and, then, solving for dX, we get

$$dX = \frac{1}{aP_Y} dL_X - \frac{L_X}{aP_Y^2} dP_Y = -\frac{1}{aP_Y} \cdot \frac{f \frac{L_X}{P_Y} dP_Y}{1 - f}$$
$$- \frac{L_X}{aP_Y^2} dP_Y = -\frac{\frac{L_X}{aP_Y^2} dP_Y}{1 - f} < 0$$
(20)

We next consider P_x . Its equilibrium value is given by (7). Taking total differential of (7) treating all variables other than X, P_x and P_y as fixed and, then, solving for dP_x , we get

$$dP_{X} = -\frac{(1-s)dX}{\left[(1-r)\frac{1}{P_{X}}\right]\frac{\overline{W}}{P_{X}}} > 0$$
(21)

Finally, we examine how capitalists' use of goods and services, given by the sum of their consumption and investment, is affected by the given increase in P_{γ} . Taking total differential of (2.7) treating all variables other than *I*, P_{χ} , P_{γ} and L_{χ} as fixed and, then solving for *dI*, we get $dI = (c_{w} r - c_{c}) \frac{\overline{W}}{P_{Y}^{2}} dP_{Y} + \left(-d\left(\frac{L_{X}}{P_{Y}}\right)\right) (22)$

Let us now explain the results derived above. Following a given increase in P_{γ} by dP_{γ} , the producers in the unorganized sector are able to purchase less intermediate inputs from the organized

sector. Hence, *X* falls by $dX_I = -\frac{L_x}{P_y^2} dP_y < 0$. This will lower supply of *X* in the market by $(1 - s) dX_I$ creating that much of excess demand in the market for *X* at the initial equilibrium P_X . P_X will, therefore, rise to equilibrate the *X* market. From (7) it follows that demand for *X* falls by c_W . $(1 - r) \cdot \frac{\overline{W}}{P_x^2}$ per unit rise in P_X . Hence, P_X will go up by $dP_{XI} = -\frac{(1-s)dX_I}{c_w(1-r)\frac{\overline{W}}{P_x^2}} > 0$. The

given rise in P_Y by dP_Y lowers demand for Y in two ways: First, it redistributes income from the workers to the capitalists and, thereby, lowers aggregate consumption demand for Y by $(c_W \Gamma - c_C) \frac{\overline{W}}{P_Y^2} dP_Y$. It is standard to assume that $(c_W \Gamma - c_C) > 0$. Second, unorganized sector's demand for Y falls by $\frac{L_X}{P_Y^2} dP_Y$. This enables the capitalists to raise I by $dI_I =$

$$(c_w r - c_c) \frac{\overline{W}}{P_x^2} dP_y + \frac{L_x}{P_y^2} dP_y > 0.$$
 This ends

the changes that take place in the first round. However, the process of contraction in the unorganized sector and that of expansion in the consumption and investment of the capitalists will continue. The fall in *X* in the first round will increase the default rate on the loans taken by the producers of the unorganized sector. This will induce the banks to reduce their lending to the unorganized sector. Hence, L_x in the second round, as follows from (12), will fall by $dL_{x2} = F_D D_X dX_1 = -F_D D_X$ $\frac{L_X}{aP_Y^2} dP_Y \equiv -f \cdot dP_Y$. This will, as follows from (3), lower *X* by $dX_2 = \frac{dL_{X2}}{aP_Y} = -F_D D_X$ $\frac{1}{aP_Y} \frac{L_X}{aP_Y^2} dP_Y \equiv f \frac{L_X}{aP_Y^2} dP_Y$ bringing about an excess demand for *X* of the same amount at the initial equilibrium L_X .

Hence,
$$P_X$$
 will go up by $dP_{X2} = \frac{f \frac{L_X}{aP_Y^2} dP_Y}{c_w (1-r) \frac{\overline{W}}{P_X^2}}$

$$> 0$$
. The fall in L_x will reduce demand for Y

by
$$\frac{dL_{X2}}{P_Y^2} = -f\frac{L_X}{P_Y^2} dP_Y$$
. This will enable

the capitalists to raise *I* by $dI_1 = f \frac{L_X}{P_Y^2} dP_Y$.

This completes the second round changes. The fall in *X* in the second round starts the third round changes. The increase in the default rate of the unorganized sector producers due to the fall in *X* in the second round induces the banks to cut down L_X further by $dL_{X3} = f dL_{X2} dP_Y = -f^2 \frac{L_X}{P_Y} dP_Y$. This will lower *X* in the third round by $dX_3 = \frac{dL_{X3}}{aP_Y} = -f^2 \frac{L_X}{aP_Y^2} dP_Y$ creating the same amount of excess demand at the initial equilibrium P_x . Hence, P_x in the third round will rise by $dP_{x3} =$

$$\frac{f^2 \frac{L_X}{a P_Y^2} dP_Y}{c_w (1-r) \frac{\overline{W}}{P_v^2}}$$
. The fall in L_X in the third

round will lower unorganized sector's

demand for Y by
$$\frac{dL_{X3}dP_Y}{P_Y} = -f^2 \frac{L_X}{P_Y^3} dP_Y$$
.

This will enable the capitalists to raise *I*

by $I_3 = f^2 \frac{L_x}{P_y^3} dP_y$. This process of changes will continue until the fall in L_x that takes place in each successive round eventually falls to zero. When that happens, the economy achieves a new equilibrium.

Thus, the total fall in L_X is given by

$$dL_{x} = dL_{x2} + dL_{x3} + \dots = -f \frac{L_{x}}{P_{y}} dP_{y} - f^{2} \frac{L_{x}}{P_{y}}$$
$$dP_{y} + \dots = -\frac{f \frac{L_{x}}{P_{y}} dP_{y}}{1 - f}$$
(23)

Thus, the total fall in *X* is given by

$$dX = dX_{1} + dX_{2} + dX_{3} + \dots = -\frac{L_{X}}{aP_{Y}^{2}} dP_{Y} - \frac{L_{X}}{aP_{Y}^{2}} dP_{Y}$$

The total increase in *I* is given by

$$dI = dI_{1} + dI_{2} + dI_{3} + \dots = (c_{W} \Gamma - c_{C}) \frac{W}{P_{Y}^{2}} dP_{Y}$$
$$+ \frac{L_{X}}{aP_{Y}^{2}} dP_{Y} + f \frac{L_{X}}{aP_{Y}^{2}} dP_{Y} + f^{2} \frac{L_{X}}{aP_{Y}^{2}} dP_{Y} + \dots$$

$$= (c_{W}r - c_{C}) \frac{\overline{W}}{P_{Y}^{2}} dP_{Y} + \frac{\frac{L_{X}}{P_{Y}^{2}} dP_{Y}}{1 - f} > 0 \quad (25)$$

Eqs. (23), (24) and (25) explain (19), (20) and (22), respectively. From the above it follows that, following a given increase in P_{γ} , there will take place a cumulative decline in the output of the unorganized sector and a cumulative increase in capitalists' consumption and investment. This yields the following proposition:

Proposition 2: P_{γ} is an instrument of exploitation at the disposal of the capitalists. By raising it, they bring about a cumulative contraction in the output of the unorganized sector that produces for the masses and employs in India about ninety-nine percent of the labour force. This leads to a substantial increase in unemployment and poverty. The capitalists use the resources released to raise their consumption and investment.

The above proposition explains why prices rise continuously in capitalist countries. The neoclassical economics recommends free movement of prices and, thereby, facilitates capitalistic exploitation.

Forcible Acquisition of Land of the Small Producers

We have already pointed out that close to 99 percent of the Indians at the present derive their livelihood from the unorganized sector. The unorganized sector not only employs close to 99 percent of the workforce, it also produces the basic necessities of life for the masses such as food, clothing, shelter etc. Development in a civilized society should mean improvement of the economic condition of the masses. Obviously, to achieve this, the government has to take the major initiative, since the producers of the unorganized sector do not have the resources to develop their sector themselves. The government has to invest heavily in infrastructure to provide the producers of the unorganized sector with assured supply of water, power, transport etc. at low prices. It has to also investment on a large scale in R&D to improve the productivity of land, capital and industrial inputs used in the organized sector. Since the capitalists are enormously mighty financially and since they have the media completely under their control, the government has to protect the producers of the unorganized sector from competition from the capitalists. It has to prevent the capitalists from producing the goods and services that the unorganized sector produces. To protect the producers of the unorganized sector from capitalistic exploitation, the government should buy the products of the unorganized sector from the producers at remunerative prices and sell them the organized sector inputs at appropriately low prices so that the unorganized sector producers get a satisfactory rate of return on their production. The government should distribute the produce procured among the masses at appropriately low prices through a public distribution system. Backed by the Soviet Union, the Government of India during the Nehru-Mahalanobis era followed such policies. However, with the disintegration of the

Soviet Union in 1991, the capitalists conquered the political parties and the government again. At the present, the government under the New Economic Policy (NEP) is gradually and relentlessly withdrawing all the protection that the government gave to the unorganized sector during the Nehru-Mahalanobis era. Moreover, the government now-a-days is forcibly taking away land from the unorganized sector and is giving it away free of cost to the capitalists. Clearly, the scenario is extremely scary. If the capitalists, through their hold over the State Power, succeed in swallowing up the unorganized sector and produce all the goods and services employing just a minuscule section of the labour force, most of the people in India will perish. We will examine here how forcible acquisition of land from the producers of the organized sector will affect the rich and the poor in India.

Note that we can use \overline{X} as the index of the amount of land in the possession of the unorganized sector producers. \overline{X} denotes the amount of X they can produce utilizing fully the amount of land in their possession using traditional technology that does not require the use of intermediate inputs of the organized sector. We should make L_x a decreasing function of the amount of land the producers of the unorganized sector can

$$L_{\chi} = F\left(D\left(\overline{X} + \frac{L_{\chi}}{P_{Y}}\frac{1}{a}, \overline{r} + \nu\right), \chi, \overline{X}\right); F_{\overline{\chi}} < 0$$
(26)

offer as collateral. We should, therefore,

We are now in a position to examine how a given fall in \overline{X} by $d\overline{X}$ is likely to affect X and I. Let us first focus on L_x . Taking total differential of (26) treating all variables other than L_x and \overline{X} as fixed and, then, solving for dL_x , we get

$$dL_{X} = \frac{\left[F_{D}D_{\overline{X}} + F_{\overline{X}}\right]d\overline{X}}{1 - f}$$
(27)

Again, taking total differential of (3) treating all variables other than \overline{X} and dL_x as fixed and, then, solving for dX, we get

$$dX = d\,\overline{X} + \frac{1}{aP_Y} \,dL_x \tag{28}$$

In what follows, to simplify algebraic expression without any loss of generality, we will regard r and s as fixed. To derive the impact on $P_{x'}$, we take total differential of (6) treating all variables other than P_x and X as fixed and, then, solve it for dP_x . This yields the following equation:

$$dP_{X} = -\frac{(1-s)}{(1-r)\frac{\overline{W}}{P_{X}^{2}}} dX > 0, \text{ when } dX < 0$$
(29)

Finally, taking total differential of (7) treating all variables other than L_x and I as fixed and, then, solving for dI, we get

$$dI = -\frac{dL_x}{P_y} \tag{30}$$

Let us now explain the process through which the changes specified by eqs. (27) - (30) come about.

Following a decline in \overline{X} by $d\overline{X}$, L_x falls for two reasons. First, the amount of land

rewrite (12) as

the farmers can offer as collateral decreases and this lowers L_X by $F_{\overline{X}}d\overline{X}$. Again, the decline in \overline{X} raises the default rate of the producers of the unorganized sector. As a result, L_X falls further by $F_D D_X$ $d\overline{X}$. Therefore, in the first round, L_X goes down by $dLX_I = [F_{\overline{X}} + F_D D_X] d\overline{X}$. This lowers X by $dX_I = d\overline{X} + \frac{dL_{XI}}{aP_Y}$ $\left[\frac{1}{aP_Y}(F_{\overline{X}} + F_D D_X) + 1\right] d\overline{X}$ creating that much of excess demand in the market for X at the initial equilibrium P_X - see (6). Hence, P_X will rise. Per unit increase in P_X , excess demand for X falls by $(1-r) \frac{\overline{W}}{P_X^2}$. Therefore, P_X goes up by dP_{XI} =

$$-\frac{\frac{1}{P_{X}}\left[F_{\overline{X}}+F_{D}D_{X}\right]d\overline{X}}{(1-r)\frac{\overline{W}}{P_{X}^{2}}}.$$
 Finally, from (7) it

follows that the decline in L_x will enable the capitalists to raise *I* by $I_1 = -\frac{dL_{x_1}}{P_y}$.

The first round changes come to an end here. The second round changes will start from here. The decline in *X* by dX_1 will raise the default rate of the unorganized sector producers further. This will lower L_X in the second round by $dL_{X2} = f \cdot dL_{X1}$. This, in turn, will lower *X* by $dX_2 = \frac{dL_{X2}}{aP_Y}$ creating that much of excess demand for food at the initial equilibrium P_X . Therefore, P_X will go up by $P_{X2} =$ $-\frac{dX_2}{(1-r)\frac{\overline{W}}{P_{\chi}^2}}$. The fall in L_{χ} in the second

round will enable the capitalists to raise I

by $dI_2 = -\frac{dL_{X2}}{P_Y}$. Similarly, in the third round, the following changes will occur: L_X will go down further by $dL_{X3} = f \cdot dL_{X2}$ $= f^2 \cdot dL_{X1}$. This will reduce X by $dX_3 =$ $\frac{dL_{X3}}{aP_Y}$ creating excess demand for X of the same amount at the initial equilibrium P_X . Hence, P_X will go up by $dP_{X2} =$ $-\frac{dX_3}{(1-r)\frac{\overline{W}}{P_X^2}}$. Finally, the fall in L_X will

enable the capitalists to raise *I* by $dI_3 = -\frac{dL_{X3}}{P_2}$. The process of contraction will

continue until the fall in L_x that takes place in each successive round eventually falls to zero. When that happens, the economy achieves the new equilibrium. Thus, the total decrease in L_x and X and the total increase in I are given by the following equations:

$$dL_{x} = dL_{x1} + f \cdot dL_{x1} + f^{2} \cdot dL_{x1} + \dots = \frac{1}{1 - f}$$

$$dL_{x1} = \frac{\left[F_{\overline{X}} + F_{D}D_{X}\right]d\overline{X}}{1 - f} \qquad (31)$$

$$dX = d\overline{X} + \frac{dL_{x1}}{aP_{Y}} + \frac{dL_{x2}}{aP_{Y}} + \frac{dL_{x3}}{aP_{Y}} + \dots = d\overline{X} + \frac{dL_{X}}{aP_{Y}} \qquad (32)$$

and

Economic Reforms and the Common Man in India

$$dI = -\frac{dL_{X1}}{P_Y} - \frac{dL_{X2}}{P_Y} - \frac{dL_{X3}}{P_Y} - \dots = -\frac{dL_X}{P_Y}$$
(33)

Eqs. (31), (32) and (33) explain equations (27), (28) and (30). The above analysis yields the following proposition:

Proposition 3: Forcible acquisition of land of the producers of the unorganized sector will lead to a cumulative decline in the output of the unorganized sector bringing about a substantial increase in unemployment and poverty. This will enable the capitalists to raise their investment on a large scale.

Besides the forcible acquisition of land from the producers of the unorganized sector, the government is also rendering production in the unorganized sector unprofitable by continuously reducing investment in infrastructure and R&D that cater to the unorganized sector. We will discuss its implications below:

Decline in Public Investment in Infrastructure for the Unorganized Sector

Mishra (2006), Godara et. al.(2014)) show that public investment in agriculture, which is by far the largest segment of the unorganized sector, has declined steadily in the post-reform period. This steady fall in public investment may lead to deterioration in the quality of services provided by the already existing public infrastructure facilities. Hence, quality and quantity of the supply of power, water etc. may deteriorate, drainage and flood control facilities may lose gradually their efficiency. Hence, the producers of the unorganized sector may get less protection from the adverse impacts of drought, waterlogging, flooding etc. Hence, the productivity of the intermediate inputs they use may fall. In terms of our model, the fall in public investment in the area specified above may bring about an increase in *a*. We will derive below its effects on $L_{X'} X$, P_X and *I*, again under the assumption, for the sake of algebraic simplicity, that Γ and S are fixed. Taking total differential of (12) treating all variables other than L_X and *a* as fixed and, then, solving for $dL_{X'}$ we get

$$dL_{x} = \frac{-F_{D}D_{x}\frac{L_{x}}{P_{Y}}\frac{1}{a^{2}}}{1-f}$$
(34)

Again, taking total differential of (3) treating all variables other than $L_{X'}$ X and *a* as fixed and, then, solving for *dX*, we get

$$dX = \frac{dL_X}{aP_Y} - \frac{L_X}{P_Y} \frac{1}{a^2} da$$
(35)

To derive the impact on $P_{x'}$ we take total differential of (6) treating all variables other than $L_{x'}$, P_x and *a* as fixed and, then, solving it for $dP_{x'}$ we get

$$dP_{x} = \frac{\left(1-s\right)\left[\frac{1}{aP_{y}}dL_{x}-\frac{L_{x}}{P_{y}a^{2}}da\right]}{c_{w}(1-r)\frac{\overline{W}}{P_{x}^{2}}} \qquad (36)$$

Finally, to get the value of dI, we take total differential of (7) treating all variables other than I and L_x as fixed and, then, solving for dI, we get

$$dI = \frac{dL_x}{P_y} \tag{37}$$

Let us now explain the changes derived above. Following a ceteris paribus given increase in *a*, output of the unorganized sector, as follows from (3), falls by dX_1 =

 $-\frac{L_x}{P_y}\frac{1}{a^2}da$. This happens in the first

round creating excess demand of the same amount at the initial equilibrium P_x . This will raise, as follows from (6), P_x by dP_{xt}

$$= \frac{(1-s)\frac{L_x}{P_Y}\frac{1}{a^2}da}{c_w.(1-r)\frac{\overline{W}}{P_x^2}}$$
. The fall in X in the first

round raises the default rate of the unorganized sector producers inducing the banks to lower L_x by dL_{x2} = -

 $F_{_D}D_{_X}\frac{L_{_X}}{P_{_Y}}\frac{1}{a^2}$ in the second round. This

will lower X further by $dX_2 = \frac{dL_{X2}}{aP_Y}$ bringing about, as before, an increase in

$$P_{X} \text{ by } dP_{X2} = \frac{(1-s)dX_{2}}{c_{w} \cdot (1-r)\frac{\overline{W}}{P_{X}^{2}}} \text{ . The fall in } L_{X'}$$

as follows from (7), will enable the

capitalists to raise *I* by $dI = \frac{dL_{X2}}{P_Y}$. The

fall in L_x in the second round and the consequent decline in *X* will, for reasons explained earlier, will lower L_x further by

$$dL_{X3} = f \cdot dL_{X2}$$
 reducing X by $dX_3 = \frac{dL_{X2}}{aP_Y}$

Time's Journey/ISSN : 2278-6546

This will, for reasons we have already discussed, raise P_x and I by dP_{x3} =

$$\frac{(1-s)dX_3}{c_w.(1-r)\frac{\overline{W}}{P_X^2}} \text{ and } dI_3 = -\frac{dL_{X3}}{P_Y}, \text{ respectively.}$$

Similarly, in the fourth round, the changes in L_{X} , X, P_X and I will be given respectively by $dL_{X4} = f \cdot dL_{X3} = f^2 \cdot dL_{X2}$, $dX_4 = \frac{dL_{X4}}{aP_Y}$, $dP_{X4} = \frac{(1-s)dX_4}{c_w \cdot (1-r)\frac{W}{r^2}}$ and $dI_4 =$

$$-\frac{dL_{X4}}{P_{Y}}$$
. This process of change will

continue until the fall in L_x that takes place in each successive round eventually falls to zero. When that happens, the economy achieves a new equilibrium. Thus, the total changes in $L_{x'}$ X and I are given by the following equations:

$$dL_{x} = dL_{x2} + f \cdot dL_{x2} + f^{2} \cdot dL_{x2} + \dots = \frac{dL_{x2}}{1 - f} = \frac{-F_{D}D_{x} \frac{L_{x}}{P_{Y}} \frac{1}{a^{2}}}{1 - f}$$
(38)

$$dX = -\frac{L_X}{P_Y}\frac{1}{a^2} da + \frac{dL_{X2}}{aP_Y} + \frac{dL_{X3}}{aP_Y} + \frac{dL_{X4}}{aP_Y} + \dots$$

$$=\frac{L_X}{P_Y}\frac{1}{a^2} da + \frac{dL_X}{aP_Y}$$
(39)

$$dI = -\frac{dL_{X2}}{aP_Y} + \frac{dL_{X3}}{aP_Y} + \frac{dL_{X4}}{aP_Y} - \dots = \frac{dL_X}{aP_Y}$$
(40)

Eqs.(38) – (40) explain eqs. (34), (35) and (37). The above discussion yields the following proposition:

Proposition 4: A decline in public investment in agriculture will bring about a cumulative contraction in the unorganized sector causing cumulative increase in unemployment and poverty. The capitalists will be able to also bring about a cumulative increase in their investment.

Conclusion

This study is based on the hypothesis that at the present India is under the complete control of the capitalists. They are making the Government of India undertake a series of Economic Reforms to implement the New Economic Policy (NEP), whose objective is to establish a free market and transfer the ownership of all the capital and natural resources to the capitalists. In sum, the NEP seeks to handover India to the capitalists so that they can run and manage India in whatever way they want. Our study shows that economic reforms in the financial sector and deregulation of prices coupled with forcible acquisition of land from the small producers and decline in public investment in agriculture lead to a large and cumulative shrinkage in the output of the unorganized sector enabling the capitalists to grab the market of the unorganized sector and have in their command a larger part of the aggregate output of goods and services for consumption and investment.

Since about 99 percent of the people derive their livelihood from the unorganized sector and the organized sector grows without generating any employment, the shrinkage of the unorganized sector is a matter of grave concern. If the capitalists, through the process of economic reforms and other means, succeed in obliterating the unorganized sector grabbing its market and resources, most of the ordinary Indians will perish. Thus, in the absence of mass awareness of and strong mass movement against capitalistic exploitation, ordinary people in India might be extinct.

References

- Godara, R.L. (2014)."Agriculture Credit in India: An Analytical Study", International Journal of Latest Trends in Engineering and Technology, 3(4).
- Mishra, S. (2006)."Farmer's Suicides in Maharashtra".Economic and Political weekly, Vol. 41(16), pp 1538-1545.
- Ghosh, C. and Ghosh, A.N. (2019^a). Keynesian Macroeconomics Beyond the IS-LM Model, Springer.
- -----(2019^b).
 An Introduction to Economics: Economic Theory and Society, Palgrave Macmillan.
- NABARD (2021).National Paper (NABARD) - PLP 2020-21.Retrieved from https://www.nabard.org/auth / writereaddata/CareerNotices/ 2309195333Paper%20on%20Market% 20Linkages%20on%20Agriculture% 20Commodities.pdf.
- RBI (2018). Financial Stability Report 2018

Table 1

Contributions of the Organized Sector and the Unorganized Sector to the Value added of Major Sectors of Production and NDP

	1993-94		2003	-04	2010-11		
Industry	Organized	Unorga- nized	Organized Unorga- nized		Organized	Unorga- nized	
Agriculture, Forestry and Fishing	3.5	96.5	4.1	95.9	5.8	94.2	
Mining, manufacturing	64.2	35.8	60.5	39.5	64.5	35.5	
Electricity, Construction and Services	47.1	58.9	53.1	46.9	42.2	51.8	
NDP	36.8	63.2	43.3	56.7	45.1	54.9	

Source: CSO (2005): National Accounts Statistics 2005, Government of India and National Accounts Statistics 2012, Government of India

Table 2		
Employment in the Organized sector ((in million)	

Year	Growth Rate of GDP at Constant (2004-05) Prices	Number of Workers Employed			
1994-95	6.4	27.53			
2000-01	5.3	27.79			
2001-02	5.5	27.20			
2003-04	8.1	26.45			
2004-05	7.0	26.46			
2005-06	9.5	26.96			
2006-07	9.6	27.24			
2007-08	9.6	27.55			
2008-09	6.7	28.18			
2009-10	8.4	29.00			
2010-11	8.4	29			
2011-12	5.3	29.65			

Source: RBI

Time's Journey/ISSN : 2278-6546

Economic Reforms and the Common Man in India

2004-05

Sectoral Shares in Work Force (2004-05)						
	Organized Sector	Unorganized sector				
Percentage of Workforce Employed	6	94				

Table 3

Table 4
Labour Force, Work force and Unemployment (in million)

	1993-94	1999-00	2004-05	1999-00 to 2004-05 Point to Point Annualised Growth rate
Labour Force	387.94	406.05	469.06	2.93
Work Force	374.45	397.00	457.82	2.89
Number of Unemployed	7.49	9.05	17.24	

Source: NSSO and Report of the Task Force on Employment Opportunities (planning Commission)

				_						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
France	1.5	2.1	1.9	0.8	0.5	0.04	0.2	1.03	1.9	1.1
Germany	1.1	2.1	2.0	1.5	0.9	0.5	0.5	1.5	1.7	1.4
UK	2.5	3.9	2.6	2.3	1,4	0.4	1.0	2.5	2.3	1.7
USA	1.6	3.1	2.0	1.5	1.6	0.1	1.3	2.1	2.4	1.8
HIC1	2.0	3.4	2.7	1.5	1.0	0.32	0.4	1.5	1.8	1.6
India	11.1	8.9	9.3	10.9	6.4	5.9	4.1	2.5	4.9	7.7

Table 5 Rate of Consumer Price Inflation (Annual %)

Source: International Monetary Fund