T.G. Narayanan Memorial Lecture 2012

CAPITALISM AND THE PRODUCTION OF POVERTY

by

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Introduction

It is a privilege for me to deliver the first lecture on social deprivation in memory of Shri T G Narayanan, who was such an eminent representative of socially responsible journalism before Independence, well known for investigating and reporting on the Bengal famine; and who went on to attain a highly responsible position at the United Nations in the years after Independence. The subject of social deprivation in India is usually treated in the context of our own society and its evolution; what this lecture attempts to do is to define the question broadly as mass deprivation and to situate it in the context of the dynamics of the global capitalist system of which India became a part long ago, and into which it is being increasingly re-integrated in the current era of 'globalization'.

The capitalist system of production rules virtually the entire world today after the break-up of socialist Soviet Union in the early 1990s and the increasing market and profit orientation of economic policies in China since the 1980s, where private property has been re-introduced over significant areas of activity. Despite the deep financial and employment crises which have engulfed the advanced capitalist nations, we see therefore a certain arrogance, a hubris which marks the class of finance capitalists, that continues to rampage over the world seeking to remake it after its own image, against a backdrop where alternative models of socialism have either collapsed or exist only in a formal sense.

International finance capital through its myriad institutions and the exercise of diplomatic pressure, has put in place in most developing countries, local servitors in key decision making positions to implement that particular set of policies which serve the interests of global finance and to a lesser extent, of global industry. The core elements of these policies include as is well known by now, trade and investment openness, income-deflating fiscal and monetary measures which reduce public development spending and social sector spending, privatization of public sector undertakings, an attack on labour unions, and an attack on the livelihood and assets of small producers mainly comprising peasants and artisans, in order to promote corporatization.

In most developing countries the peasantry and artisans numerically outnumber by far the class of wage-paid workers. The attack on the
peasantry’s land assets and forest resources by the corporate sector - both domestic and foreign- usually aided by the ruling state power, is seen virtually everywhere in countries as diverse as India and China in Asia, in Tanzania, Madagascar and Ethiopia in Africa. The bitter reaction which it has provoked, the resistance of the peasantry to corporate and state acquisition of its assets, is the stuff of the most significant unfolding of social and political mass mobilization to be seen today. What we see is a new phase of what Karl Marx had called the ‘primitive accumulation of capital’, comprising the separation of small producers from their means of production. The difference between earlier phases of primitive accumulation and the present one however is all-important. Earlier phases were transitional to industrialization in Europe and in the lands settled by Europeans in the New World. The present phase of primitive accumulation in developing countries, is transitional not to capitalist industrialization but to the accumulation of riches at one pole of the social structure, with rising unemployment, pauperization, the proliferation of small scale services and increased absolute poverty at the other pole. This conclusion of absolute immiserization is not generally accepted in the extant mainstream or even so-called ‘heterodox’ discussions of globalization, but I believe that the theoretical arguments leading to this conclusion are sound and the empirical evidence which can be marshalled to support it, is over-whelming. To recount the mounting evidence supporting this conclusion, and to analyze the reasons for this adverse outcome in developing countries, is the purpose and subject matter of my lecture today.

Most intellectuals, even those who might sympathize with the plight of the displaced small producers in their own countries, tend to think of it as historically inevitable. This stance is strongly coloured by the past history of today’s advanced countries, which in the course of their 18th and 19th century land enclosures, displaced their own peasant on a massive scale. The argument is that however painful such uprooting from their traditional way of life might have been for the self-employed peasantry, in the longer run they were re-absorbed as wage paid labour in the new, dynamic sectors of developing capitalist production. This view sees ‘primitive accumulation’ and displacement as representing merely a moment in the transition to a far more productive and modern
society namely industrial society. My argument however is that it is entirely fallacious to conflate the past trajectories of capitalist transition in Europe with present developments in poorer countries, because these past trajectories are inconceivable without the aggressive external expansion today's advanced countries followed, which permitted them to externalize the inner contradictions of their own societies to a substantial extent and to pass the costs of industrial development on to other peoples.

In short their successful industrialization was an outcome of colonialism and imperialism in ways which cannot be replicated today by developing countries even should they wish to do so, nor does there exist any modern substitute avenue for externalizing the contradictions of following the capitalist trajectory. The features and dynamics of current globalization therefore are substantially different from past globalization via direct colonialism and imperialism, in particular the capitalist system itself at its core, has lost the flexibility and the many degrees of freedom it earlier enjoyed.

2. Dynamics of Present day Capitalism as contrasted with past episodes of Globalization

Some of the most powerful passages on the transformative role of capitalism in raising the level of productive forces, are to be found paradoxically, not in the writings of the votaries of capitalism but of the strongest critics of capitalism, especially in Karl Marx's Capital, presaged by the passages describing capital's destructive role in the Communist Manifesto. While capital 'tears asunder' all production based on direct patriarchal personal relations of servitude and destroys traditional society, this is seen as clearing the way for an immense upsurge of productive forces as the extraction of surplus value from employing free wage paid labour becomes the dominant production mode. Marx was insistent that the capitalist growth path however productive in the technological sense always leads to the creation of unemployment, to a deliberately maintained 'reserve army of labour', and it leads therefore to absolute poverty of the exploited majority, the working class at one pole of the social structure and to the accumulation of riches at the other pole. Capital itself eventually creates the social conditions for its own overthrow and the advance to an egalitarian socialist society.
Critics of Marx have said that Karl Marx was wrong, his predictions, in particular on the absolute immiserization of the working class were not borne out by developments in Europe since there was substantial improvement in the living standard of the masses, nor did the insurrectionary phase of early industrial society in the 1840s ever develop later into a revolutionary upsurge of the working class. If we view capital as working within the narrow confines of national economies alone then this criticism would be correct. But there is no reason to view capital as operating within national economies alone. From the prelude, the very inception of the capitalist mode of production, capitalist accumulation has arisen not merely from domestic but from global trade and investment flows, and has involved the subjugation and enslavement of peoples of non-European origin. Marx’s prediction of the accumulation of wealth at one pole and of misery and impoverishment at the other, turns out to have been entirely correct provided we look at the dynamics of capitalist accumulation in the global context. Marx himself fully intended to analyze the global working of capitalism. His intellectual project is summarized in the very first lines of the Preface to A Contribution to the Critique of Political Economy,¹ where the last topics of his study were to be ‘the State, foreign trade and world market’:

I examine the system of bourgeois economy in the following order: capital, landed property, wage-labour; the State, foreign trade, world market. The economic conditions of existence of the three great classes into which modern bourgeois society is divided are analysed under the first three headings; the interconnection of the other three headings is self-evident.

The method of abstraction Marx followed was to start with a closed capitalist economy and, although it is clear that his declared intention was to open it up, in practice his entire working life was taken up with the analysis of the first three topics while the last three – ‘the State, foreign trade and world market’ – were never systematically elaborated. From Marx’s articles and news dispatches in the New York Tribune we obtain many references to European migration to the New World, Britain’s colonial exploitation of India and the drain of resources from

the colonially subjugated world to the European industrializing countries. But these phenomena were never formally integrated into his analysis of capitalist accumulation, as they might have been had Marx’s working life lasted longer.

The actual history of capitalism raises important theoretical issues regarding the validity of associating capitalism with ‘free’ wage labour as contrasted with serfdom and slavery under pre-capitalist modes of production. In reality the revival of modern slavery as a major form of class exploitation over a millennium after the slavery of the ancient world was the dubious gift of the rise of the capitalist mode of production. The same eighteenth and nineteenth-century English and French landlords who leased out their land by contract to capitalist tenant farmers at home and obtained capitalist rent also operated plantations based on slave labour in the Caribbean to extract slave rent. Does it follow that it is incorrect to associate the rise of capitalism with the ‘freedom’ of the worker? No, for free wage labour is an indisputable fact in the core countries, but so is lack of freedom imposed on peripheral populations. The Marxist analysis of the relation between the growth of free wage labour at one pole of capitalist accumulation and of chattel slavery at the other pole, an analysis which is yet to be undertaken, must take into account the dialectical interaction of these two antithetical forms of exploitation. The freedom of workers in the core countries was historically conditional on the imposition of unfreedom on non-European peoples. The capitalist ruling classes imposed servitude on many non-European peoples, forcibly removed them from their communities, enslaved and transported millions of persons to the other side of the globe to work plantations for their own benefit, treating slave rent as profit. After the formal abolition of slavery another form of un-freedom continued under the indentured labour system. At the same time, the capitalist ruling classes bowed to the pressure of struggle by wage labour in the home country for political representation and economic improvement through collective bargaining. The bargaining power of wage labour in the core countries necessarily improved through the dual route of out-migration of the unemployed which reduced the reserve army of labour, and the massive inflow of colonial transfers which boosted domestically generated profits substantially, serving to raise mass living standards.
A few words are in order regarding these two crucial elements of accumulation in the past era of globalization – unfettered out-migration of Europeans on a large scale to the lands they had seized from indigenous peoples in the Americas and elsewhere; and its complement, the creation of a bloated reserve army of labour in the subjugated colonially exploited countries, as a consequence of resource transfers through colonial exploitation. It is these two features which allowed the industrializing nations to *externalize the acute internal contradictions* which would otherwise have torn their societies apart, and served to undermine the potential for revolution at the core while at the same time the conditions were generated for a shifting of the locus of struggles to the global South. First, historically in the core capitalist countries, many millions more were displaced than were ever absorbed in non-agricultural activities within the boundaries of these countries. The nature of capitalist growth has always been, and continues to be, such that it engenders unemployment daily, hourly, and on a mass scale. The objective of capitalist production is to maximize profits for capitalists, not to provide employment to the existing unemployed, nor are capitalists or the state they control usually concerned with ensuring minimum livelihoods for the labouring poor.

To illustrate the effects of permanent out-migration as a solution to labour displacement from agriculture, let us consider Britain, the first industrial nation. Small farmers evicted in the course of enclosures and the artisans thrown out of jobs as machinery was first introduced, became vagrants of whom only a fraction found employment in the growing factory sector. Even though the early machines two centuries ago were very simple, they displaced labour on a massive scale – a single spinning ‘jenny’ had 80 spindles, needed only one worker to operate and threw 79 traditional spinners in Europe out of work (jennies with up to 800 spindles each were known to be used before being replaced by mule spindles). The effects of the much higher level of labour-displacing technology and of automation today in developing countries is to produce jobless growth, indeed many sectors in India are seeing job-loss growth. In Britain the unemployed and the poorly paid employed workers alike rose in insurrection against the state under the banner of Chartism in the 1840s – only the safety valve of emigration prevented revolution. Britain’s population was small, only 12 million in 1821, but 16 million Britons emigrated between 1821 and 1915, making up or nearly two-fifths of all
Europeans who emigrated to the lands they had seized from indigenous peoples mainly in the Americas. On average half of the entire annual increment to its population, left Britain every year for a century. For India to be able to export its displaced peasants and unemployed on a similar scale, in the six decades from Independence up to the present, some 450 million persons, nearly equal to the entire initial population, should have emigrated and 10 million unskilled persons should continue to emigrate permanently each year. Unlike the populations of European colonizing countries which grabbed global land resources on an unprecedented scale, the displaced peasants and workers in developing countries like India and China, today have nowhere to go. The solution to their unemployment and livelihoods problems therefore have to be sought in a thought-out alternative to following the anarchic, mindless path of capitalism.

In the present era of globalization, since the route of massive out-migration to new economic frontiers is closed for advanced country populations as well, the unemployment generating effects of the capitalist trajectory manifest themselves much more clearly and to devastating effect. The dimensions of endemic employment crises produced by the capitalist system can no longer be camouflaged to anything like the same extent as in the past. True, the burden of unemployment is still sought to be externalized through policies pushed by the global financial institutions but their success is more limited and these policies are constantly contested.

Unemployment was also exported by industrializing countries through the flooding the subjugated already populous tropical colonies with cotton textiles and other manufactured goods under discriminating commercial policy which kept these markets compulsorily completely open to imports, while the home market was protected from their handicraft manufactures for nearly 150 years. While employment and wages rose in the industrializing country with output expanding at about double the rate of domestic absorptive capacity, the other side of the coin

2 It is a notable fact that leading historians of industrialization and technical change in advanced countries (E J Hobsbawm IN Industry and Empire, D Landes in The Unbound Prometheus) make no mention of these crucial discriminatory commercial policies in their writings though they were in operation for over a hundred years.
was that in the colonies manufactures employment went down sharply resulting in de-industrialization.

As the unwilling recipients of the export of unemployment from today’s advanced countries, India the former colony and China the former semi-colony, had ended up by the mid-20th century with mass poverty and with significantly tertiariized economies -a higher share of services and lowered share of both agriculture and industry in GDP- compared to their initial states. They inherited very high levels of unemployment and under-employment, which became a matter of serious concern as they sought to pursue an independent path of national development. The choice of techniques question was much discussed in the early decades, the 1950s and 1960s, and it was recognized in both countries that industrialization with employment generation meant ‘walking on two legs’, to borrow Mao Zedong’s words - capital intensive heavy industries and intermediate goods production had to be built up from scratch or expanded, there had to be a simultaneous thrust for expansion in labour-intensive segments of manufacturing including small-scale and village industry, and for all this to occur in a non-inflationary way agricultural growth had to accelerate to provide the required wage goods and raw materials. This was the rationale for giving priority sector status to small scale industry and agriculture in India as regards credit.

However though the fastest expanding segments of manufacturing output in the first 15 years of Indian independence logged 9 percent annual growth rate, the associated employment growth was only 3 percent. It was already very clear and widely recognized that no visible net shifting out of the work-force from agriculture could be expected even at such high manufacturing growth rates. Subsequently the elasticity of employment with respect to manufacturing output has been falling steadily and especially sharply after liberalization in the 1990s for obvious reasons. Maintaining competitiveness by firms in a trade- and- investment open economy entails adopting the latest technology and the loss is in terms of employment generation. Additionally the thrust of neo-liberal reforms is always towards retrenchment of labour and ‘downsizing’ with a total ignoring of the impact of this on aggregate demand and hence on the inducement to invest. The combination of the two factors has led to near-
zero impact of manufacturing growth on employment while for organized industry there is absolute job-loss, as is well established by now.

The second difference of the current phase of globalization relates to the inability of advanced countries to extract resources from developing countries while maintaining the legal fiction that the resources are legitimately their own. In the era of direct colonial exploitation, taking the relation of Britain to India as an example, the taxes raised from the subjugated population was used to purchase the goods directly exported to the metropolis, while foreign exchange earnings from India’s merchandise export surplus to other countries were not permitted to flow back to India but were appropriated by Britain to settle its own trade deficits (mainly with the European Continent and USA) and to undertake capital exports to develop areas of new European settlement, with which it already had large current account deficits. This appropriation of exchange earnings not its own, was done through the imposition of fictitious invisible charges on the colony. The smooth working of the Gold Standard and the confidence reposed by the finance capitalists in its stability, was thus crucially predicated on this ability of the then world capitalist leader, Britain, to appropriate its colonies’ vast exchange earnings from export surpluses to the rest of the world, while incurring no legal obligation to provide a return, since it could manipulate the accounts at will to maintain the fiction that these resources were its own. This high degree of flexibility does not exist for the current world capitalist leader, the United States of America. Just as in the past Britain depended heavily on the exchange earnings of its colonies from the world and actually used their earnings to balance its own external accounts, at present the USA depends on borrowing heavily from China and to a lesser extent from India to fill its yawning current account deficits. ‘Global imbalance’ in which the world’s poorest countries are made to finance the richest ones has been the feature of capitalism from the era of imperialism. But while Britain could appropriate resources without being explicitly seen to borrow and hence with no legal liability to the countries it exploited

directly, the USA has the highest explicit debt in the world and has a legal external liability vis a vis India and China just as it has vis a vis its advanced country creditors, to provide a return. This in my view, makes for far greater vulnerability to crises, of the present global payments system centred on the world capitalist leader, the USA, than was the case under the gold standard presided over by Britain. Although the pound sterling was considered to be ‘as good as gold’, Britain’s ability to play out the role of world capitalist leader did eventually collapse along with the gold standard, as the most important material basis for its strength, the export earnings of India and other colonies, declined precipitously with the world agricultural depression of the 1920s. Even though the US dollar is considered to be almost as good as gold, any economic crisis which leads to a decline in China’s current account surpluses and its ability to lend to the USA will have lead to much the same denouement today. Needless to say this interpretation differs radically from the standard prescription of Northern economists that China should reduce its export surpluses. (It should indeed do so, but for a different reason, namely that doing so would benefit its own masses by retaining more output for domestic consumption).

Even after its effective demise as world capitalist leader Britain continued to exploit India for its own benefit. The burden of financing the Allies’ war against Japan from 1941 to 1945 was placed on India, and a sum in excess of Rs. 18 billion or over £1200 million, was extracted over the period mainly through a process of rapid price inflation redistributing incomes. This meant forced reduction of consumption by the peasantry and artisans of Bengal to such an extent that more than 3 million persons starved to death. The Bengal famine is documented in film, song and literature, but the criminal culpability of the colonial government finds no mention, nor has independent India asked for reparation from Britain as it should have done.

The dependence of the advanced capitalist countries on the poorest countries of the world continues to be explicitly parasitic in nature, for it

4 U Patnaik ‘Food Availability and Famine; A Longer View’ Journal O Peasant Studies Vol.19, No.1 1991, discusses the economic mechanism through which war spending was financed by placing the burden on India and specifically on the people of Bengal.
consists in grabbing primary resources in the global South, ranging from oil and minerals to forest resources and land. The common characteristic of all these is that they are natural endowments and are not the product of human labour; but the last, land, has the special characteristic that it is not homogeneous in quality and productive capacity. A hectare of tropical land is very different from a hectare of land in a cold temperate zone, for in tropical areas a given unit of land yields crops all the year round through multiple cropping, while additionally producing crops which cannot be grown at all in today’s advanced countries. The diversification of the initially very poor European consumption basket was predicated on their following policies to alter cropping patterns in the global South with the objective of satisfying their own demands. But while the traditional export crops from tropical agriculture (cotton and jute, sugar, tea and coffee, cereals, tropical hardwoods) were non-perishables able to stand the long sea journey, today the demands made on tropical lands by advanced countries have multiplied manifold to include in addition a large range of perishable goods (fruits, vegetables, flowers) which are air-freighted within hours to fill advanced country supermarket shelves.

Since land is not a product of human labour, and the maximum possible extension of cultivated area has been reached already, an increase in exports from the South to fill supermarket shelves in the global North entails a decline in the per capita production of the staple foodgrains required for maintaining the nutritional standards of the mass of the developing country population. This inverse relation between primary exports and domestic foodgrains output is exacerbated further because under the present neo-liberal policy dispensation urged by global financial interests, the state in developing countries cuts back sharply on irrigation and other rural investments, reduces agricultural research funding and withdraws extension services. This makes it all the more difficult to raise yields in food crops to compensate for diversion of area to exportables, so the colonial syndrome of falling per capita foodgrains output is rapidly re-created.

Developing countries were told that it is passé to seek to be self-sufficient in foodgrains output, rather they should specialize in the export crops advanced countries demanded but could not produce while purchasing their foodgrains from the advanced countries. In the last two
decades, dozens of countries in the global South have been successfully pressurized by the Bretton Woods Institutions to dismantle their grain procurement and distribution system, on the argument that they could always purchase grain from the main global suppliers. They have also dismantled their domestic price stabilization measures – in India for example the various Commodity Boards (tea, coffee, spices) which used to purchase about one-third of total market supplies from farmers at guaranteed minimum prices, under central government directives ceased procurement operations from the mid-1990s. The resulting exposure of peasant producers to very high global price fluctuations is the reason for their loss of viability arising from unrepayable debt. To date on average between 16,000 to 17,000 peasants continue to commit suicide every year, and the proportion of farmers committing suicide is significantly higher than the proportion in the general population.\footnote{K Nagaraj Farmer’ Suicides in India: Magnitude, Trends and Spatial Patterns Madras Institute of Development Studies, Chennai, 2008.}

3. Growing Under-nutrition and Poverty in the Global South

The present phase of global capitalist accumulation is producing absolute immiserization and increasing poverty of the masses in the South even as their ruling elites are integrated into the global elite in a subordinate status. The policy makers of virtually every developing country today have suborned themselves to implement the policies serving finance capital at the expense of the welfare of the mass of their own population. The crucial indicators of welfare are employment and food security. Under neo-liberal policy packages employment growth has been severely hit in developing countries while food and nutritional security have been severely undermined. One cannot think of any indicators of welfare which are more important than being employed productively and obtaining enough income to consume basic necessities like food and clothing in adequate amounts while availing minimum medical and educational facilities. Yet these are precisely the indicators which have shown consistent deterioration in the large labour surplus economies, India and China over the last two decades, while the exploitation of sub-Saharan Africa has led to an even larger decline in nutritional security over a shorter period of time.
The objective reality of absolute decline in welfare indicators has been denied by the global financial institutions like the World Bank which produces poverty estimates, by employing a method of calculating ‘poverty lines’ over time, which de-links it from its own original definition of poverty line, and so ensures that the nutritional standard purchasable at these poverty lines are declining, in short the standard itself is lowered and then poverty reduction is claimed. If the standard based on nutrition is held constant (which is the only logical and honest method of comparison over time and across countries) however we find an increase, not decline in poverty namely a much higher percentage of persons are unable to reach the minimum standard today compared to when reforms started. We will have more to say on the incorrect methodology followed by the World Bank and by the Indian and Chinese governments, and their false claims of poverty reduction later on.

As regards employment, the severe reduction in public spending on development, especially rural development and on social sectors has hit both growth and employment very hard, while the increasing export-orientation of agricultural production has reduced food grains output per head in both China and India over the last two decades. The core and essence of neo-liberal economic policies can be summed up as income-deflation through fiscal compression, privatization of public assets combined with private provision of utilities and health care; and free trade namely removal of all existing regulations with regard to trade. These policies taken together have had a disastrous impact on the mass of the population even while the well-to-do minority has reaped very large benefits.

The results are clear to see from the employment and consumption data for India collected in the five-yearly large sample Rounds of the National Sample Survey (NSS). Between 1993-4 and 1999-2000 the percentage of unemployed on every time-criterion of employment – daily, weekly and annual – rose sharply as public expenditures were cut drastically under Fund-Bank guided neo-liberal reforms. After some improvement between 1999-00 and 2004-05, the employment situation again deteriorated by 2009-10, the latest round of the NSS, with a higher
incidence falling on female workers. The growth rate of employment during 2004-5 to 2009-10 virtually collapsed to 0.1 percent, which is not surprising given the additional impact over and above reform policies, of global recession from 2008 which continues, and the severe drought year 2009-10. On balance unemployment is higher in 2009-10 compared to the early reform years. Given the increasing capital intensity of manufacturing production and the inroads of the corporate sector into retailing, the situation is likely to worsen further.

The consumption data from the National Sample Survey are the basis of poverty estimates made by the Planning Commission in India which has been claiming continuous reduction in the proportion of the poor in total population in both rural and urban areas. However when we look at these data we see that from 1993-94 to 2009-10 there has been an absolute decline in consumption of food grains per capita. Food grains (made up of cereals, cereal substitutes and pulses) were the source of 75% of daily calorie intake in rural India as late as 2004-05 and provided an even higher proportion of daily protein intake. Food grains are not only highly energy intensive (a kilogram of grain gives 3450 calories compared to 1000 calories from a litre of milk) but are the third richest source of protein, weight for weight, after nuts and animal products (about 75 to 120 gms. protein from a kilogram each of rice and wheat, compared to 40 gms protein from a litre of milk). For poor Asian populations, food security still means food grains security. Further, producing animal products on a traditional basis depends on food crop residues and husks as feed for animals, while modern livestock production systems rely heavily directly on cereals – mainly coarse grains – for use as feed. Thus food grains and their by-products, double as feed grains, and the domestic per capita supply of grains used for all purposes – food, feed and processing- is a crucial indicator of the nutritional status of a population.

The National Nutrition Monitoring Bureau, India observed correctly in its Report that ‘the NNMB has confirmed in repeated surveys that the main bottleneck in the dietaries of even the poorest Indians is energy and not protein as was hitherto believed.’ If the typical cereals-pulses-vegetables dietaries of poor populations is sufficiently affordable by

6 C P Chandrasekhar ‘More Evidence of Jobless Growth’ **Peoples’ Democracy** July 30 2011

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them to be consumed in quantities adequate to meet their daily energy needs, protein needs would be automatically satisfied with only minor supplementing by preferred, but much costlier animal products. Hence the observed decline in the per capita production and supply of food grains is a very disturbing outcome of neo-liberal policies and it has inevitably led to nutritional decline with not only energy intake registering a fall but protein intake also declining.

Economists in India writing on the subject have contributed to the situation getting worse year after year because they put forward a wholly incorrect reading of falling grain consumption, saying that it is nothing to worry about because peoples’ tastes are changing as they get better off, so they are voluntarily diversifying away from cereals which are inferior and by inference only consumed in large quantities by country yokels, towards superior foods like milk, eggs, poultry meat, fruits and vegetables. These economists wrongly believe that the income elasticity of demand for grain is negative. This reading arises from fallacious reasoning in which that part of total grain which is directly consumed as food, is confused with the total grain consumption which includes additionally the feed grains converted to animal products like milk, poultry, eggs and so on. The fallacy involved is the ‘fallacy of composition’ which confuses the properties of the part (direct consumption) with the properties of the whole (direct, plus indirect grain consumption as animal products raised on grain by-products and grain). It is the total grain consumption for all uses, which has been falling in India on a per head basis, which cannot possibly happen if the mass of the people are actually improving their real incomes and consuming more animal products. The Indian NSS data show absolute decline in the quantities of animal products consumed by all spending classes from the poorest to the relatively well-to-do, with only the top 5 to 10 percent of all spenders, registering a rise.

Fifty years of empirical evidence at the global level show that the consumption per capita of grain, far from falling as diets are diversified, actually rises quite fast with a rising share going as feed grains. In short the income elasticity of demand for grain is positive. The higher the per capita income of a country, and the more diversified its diet towards animal products, the higher is its consumption per capita of grain. The latest data from the United Nations Food and Agriculture Organization
relates to the year 2007 and is reproduced in Table 1 for selected countries and regions ranked by per capita income measured in purchasing power adjusted US dollars. The range is from 174 kg. for India to 890 kg. for the USA.

The poorest countries (least developed countries, Africa, India) had the lowest total per head grain consumption ranging between 175 to 200 kg, with at least three-quarters being directly consumed. Grain consumption in China was nearly 300 kg. per head, close to the world average with nearly half being indirectly consumed; the European Union averaged 557 kg while the world’s richest country, USA recorded 890 kg. per head even after exporting a third of its output—the advanced countries consumed at least three-fourths of grain indirectly. The ranking remains unchanged whichever year we take, but the absolute levels of total consumption per head in India and China show a fall over time. Table 1 shows that India had the lowest per capita consumption for all uses in the world at 174 kg. by 2007, lower than the average for Africa and the Least Developed countries (though higher than many individual countries in these regions). By 2008 the situation in India was worse since exports and additions to stocks accounted for 31.5 million tons of food grains reducing domestic supply and total consumption per capita to 156 kg. with the direct part amounting to only about 136 kg. Large additions to public stocks – which had reached 65 million tons by mid-2011 – reflect the inability of the majority of the poor to afford food grains at the prevailing price since they are wrongly classified as being ‘above poverty line’ and the benefit of subsidized grain is denied to them.

China has shown a steep decline of nearly 40 kg in its annual grain output per capita as well as its grain consumption per capita for all uses from the mid-1990s to date, even while the share of indirect consumption has been rising fast to almost half the total supply (Table 1). This indicates that just as in India there has been an absolute decline in direct consumption by significant sections of the poorer part of the population to accommodate dietary diversification and higher grain demand of the minority enriching itself under market—oriented reforms. Not only have nutritional standards of the masses declined in India, over the reform period the per capita consumption of cloth also shows a decline for every
spending class except the top one-tenth. Thus the empirical evidence lends overwhelming support to the proposition that there is absolute immiserization and loss of welfare for the majority of the population. The structure of spending shows a significant rise in the share of spending on utilities, transport, medical and educational expenses. This reflects not any rise in the access to these essential services but the steep rise in their cost, as under neo-liberal reforms the state has withdrawn from its responsibilities of ensuring basic education and health care, leaving the masses to the mercies of private operators.

If consumption of basic necessities is falling even for those who are already badly off, on any sensible concept of poverty this means that poverty is rising. Yet the World Bank claims poverty reduction for Asia and the governments of India and China similarly claim poverty reduction. But on careful examination these claims turn out to be false, derived from a methodologically incorrect procedure of calculating poverty suggested by the World Bank, in which the standard by which poverty is measured, is lowered over time. The standard (the poverty line) is the observed level of spending on all goods and services, whose food spending part allows the spender to obtain a minimum energy intake. For India the energy norm was set at 2100 calories per day in urban areas and 2400 calories per day in rural areas, the latter being lowered in actual application to 2200 calories. This definition of poverty line was applied correctly in 1973 by looking at the nutrition data from the NSS consumption survey to give Rs.56 and Rs49 monthly poverty lines per person, but the definition was never applied again. Instead the poverty line for that year was simply brought forward using consumer price indices for agricultural labour and for industrial workers respectively, and since these had risen less than ten-fold three decades later by 2004-5, the official monthly poverty lines per person were Rs. 539 urban and Rs.356 rural or on daily basis Rs.18 urban and Rs.12 rural – absurdly low sums which would have bought only a bottle of water, whereas they are supposed to cover all daily expenses, food plus non-food. The problem is that price indices which are useful for short period calculations, underestimate the cost of living severely over longer periods.

Applying the original official nutrition-norm based definition of poverty line by using the NSS nutrition data for 2004-5 it is found that
actual poverty lines were almost double the official ones, and 65 percent of urban and 70 percent of rural persons were in poverty, unable through their total spending to access the minimum energy intake (2100 and 2200 calories respectively), whereas the official poverty percentages were only 26 and 28 respectively. It is clear that in reality poverty has risen and the official claim of reduction is false because it is only derivable by reducing the standard – at the official all-India poverty lines, only 1800 calories per day could be accessed. State-wise variations in the official poverty lines means that in many states ranging from Andhra Pradesh to Gujarat, the energy intake accessible at their official state poverty lines were as low as 1400 to 1600 calories daily. The analysis by social groups shows strikingly higher than average poverty among the Scheduled Castes (SC) and Scheduled Tribes (ST). Thus 79 and 82.5 percent respectively of the SC and ST in rural India could not reach the modest nutrition norm of 2200 calories energy intake by 2004-5 compared to 69.5 percent for the general population (including these groups). In urban areas, 87.5 and 81 percent respectively of the SC and ST were in poverty compared to 65 percent in the general population.\(^7\)

In China similarly a nutrition norm was applied in 1984 to obtain a rural annual poverty line of 200 yuan, which was then brought forward by a price index which rose about six-fold over 27 years, to give only 1274 yuan by 2011 or 3.5 yuan daily, an absurdly low sum which would have bought 750gm. of the cheapest rice and nothing else, while it is supposed to cover all daily expenses. Actual poverty in China is far higher than is officially claimed. Last month, in December 2011 the Chinese government declared a one-shot hike of its annual official poverty line by a hefty 80 percent to 2300 yuan (or 6.3 yuan a day) to take care of the obvious anomaly and so included 100 million additional persons among the poor. But a quarter century of cumulative underestimation has still not been fully adjusted for, given the high rate of inflation and the steep rise in health care and education costs in China since its market-orientated...

\(^7\) The detailed data are available in U Patnaik ‘On deepening poverty of the masses including deprived social groups in rural and urban India under economic reforms’ in P.K Trivedi ed. *The Globalization Turbulence Emerging Tensions Indian Society* Rawat Publications 2011.
reforms began. In India however where the anomaly between actual cost of living and the official poverty line is even greater, with market reforms producing an equally steep rise in food, transport, health care and education costs, the Tendulkar Committee in 2010 raised the rural poverty line only to a trivial extent, from Rs.12 per day to Rs.13.8 for 2004-5 which with price-index adjustment gives official daily poverty lines of Rs.26 rural and Rs 32 urban for 2011. These continue to underestimate severely the minimum cost of living.

The World Bank takes these grossly underestimated local currency poverty lines of large populous and poor countries like India and China along with other poor countries, then applies purchasing power adjustment (namely these local poverty lines are multiplied by a factor usually lying between 2 and 3) before conversion to dollars at the current nominal exchange rate, and then takes an average to obtain the global daily poverty line, which at present is $1.25. In order to calculate the poverty percentage in any individual country it reverses the process, namely the local currency value of $1.25 at the current exchange rate is taken and then deflated (taking generally between one-third to one-half depending on the specific purchasing power parity index of the concerned country) to obtain much the same poverty line as the local official one, thus obtaining severely underestimated poverty percentages. The World Bank claim that the proportion of poor in the population has been declining in Asia, is false since its global poverty line being derived from local ones, is increasingly an underestimate and corresponds to lower and lower nutritional standards over time. No valid comparison over time is possible when the standard itself is being altered.

4. Concluding Remarks

The proposition that Marx repeatedly put forward, that the capitalist growth process produces riches for a minority at the expense of an increasing reserve army of labour, unemployment, and mass deprivation at the other pole, continues to be validated in the present era of globalization. While even advanced countries experience increasing unemployment and growing income inequality, at the global level the bulk of the adverse outcome is seen in developing countries where already poor and inadequately nourished populations suffer further absolute decline
in their standard of living. Absolute immiserization is accompanied by an attack on the land, forest and water resources of peasant producers which emanate from the local and global corporations.

Along with the agrarian crisis we see an intellectual crisis in which apologetics and intellectual opportunism increasingly replaces objective analysis on the part of the orthodox economists serving the state. Nassau Senior, a professor of Political Economy in the University of Oxford, had opposed the Ten Hours Bill by putting forward the absurd theory, critiqued by Marx, that capitalists made all their profits in the last hour of the worker's day, saying that all profits would disappear if the legal length of the working day was reduced from the then existing 11 hours to 10 hours. In India economists try to justify and rationalize the falling nutritional intake of the poorest classes in the population, the labourers and peasants by saying that it is a voluntary decline of food intake because mechanization has reduced their need for energy. This fallacious argument assumes that nutritional intake was adequate before mechanization, which is far from the case, and it ignores the fact that the countries with the most mechanized agriculture in Asia have seen substantial rise in the energy intake of workers. The apologists also reproduce uncritically the official and World Bank poverty estimates ignoring all direct evidence on the increase of mass poverty, and thereby not only acquiesce in but promote the incorrect methodology which falsely claims poverty reduction by lowering the standard against which poverty is measured over time.

The contestation of official apologetics today comes not in the main from the universities, even though in theory these should be the centres of independent and critical thinking. It comes from the people themselves who are struggling against the government and corporate acquisition of their land, and from radical civil society organizations and progressive political parties that are battling to ensure the right of the people to adequate food and employment. The unfolding of these struggles in the coming years will determine the shape of the future for the millions of deprived people in the developing countries.
### Table 1: Output and Consumption of Cereals Directly as Food and Indirectly for Feed and other uses, in 2007 for selected countries/regions

<table>
<thead>
<tr>
<th>Country / Region</th>
<th>2 Production</th>
<th>3 Net Imports and Stock changes</th>
<th>4 Total Supply</th>
<th>5 Food (DIRECT use)</th>
<th>6 Feed, seed, processing, other (INDIRECT use)</th>
<th>7 Per head Direct Kg.</th>
<th>8 Per Head Total, Kg.</th>
<th>9 Per cent of Indirect to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIA</td>
<td>212.4</td>
<td>-9.5</td>
<td>202.9</td>
<td>177.7</td>
<td>25.2</td>
<td>152.6</td>
<td>174.2</td>
<td>12.4</td>
</tr>
<tr>
<td>LEAST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEVELOPED</td>
<td>125.9</td>
<td>14.5</td>
<td>140.4</td>
<td>105.5</td>
<td>34.9</td>
<td>136.9</td>
<td>182.1</td>
<td>24.9</td>
</tr>
<tr>
<td>AFRICA</td>
<td>130.8</td>
<td>58.1</td>
<td>188.9</td>
<td>138.7</td>
<td>50.2</td>
<td>144.1</td>
<td>196.4</td>
<td>26.6</td>
</tr>
<tr>
<td>CHINA</td>
<td>395.3</td>
<td>-8.9</td>
<td>386.4</td>
<td>203.8</td>
<td>182.6</td>
<td>152.5</td>
<td>289.1</td>
<td>47.3</td>
</tr>
<tr>
<td>EUROPEAN UNION</td>
<td>261</td>
<td>14</td>
<td>275</td>
<td>61.7</td>
<td>213.3</td>
<td>125.1</td>
<td>557.3</td>
<td>77.6</td>
</tr>
<tr>
<td>USA</td>
<td>412.2</td>
<td>-137.6</td>
<td>274.6</td>
<td>34.5</td>
<td>240.1</td>
<td>111.6</td>
<td>889.5</td>
<td>87.5</td>
</tr>
<tr>
<td>WORLD</td>
<td>2121.3</td>
<td>54.6</td>
<td>2066.7</td>
<td>966.2</td>
<td>1100.5</td>
<td>146.6</td>
<td>313.6</td>
<td>53.2</td>
</tr>
</tbody>
</table>

UTSA PATNAIK

Utsa Patnaik has taught economics at Jawaharlal Nehru University, India since 1973 after obtaining a doctorate at the University of Oxford, U.K. Her main areas of research interest are the problems of transition from agriculture and peasant predominant societies to industrial society, both in a historical context and at present in relation to India; and questions relating to food security and poverty. These issues have been discussed in 110 papers published as chapters in books and in journals. She has authored several books including Peasant Class Differentiation - A study in Method (1987) The Long Transition (1999) and The Republic of Hunger and Other Essays (2007). A German translation of selections from the last book appeared in 2009. She has also edited and co-edited several volumes including Chains of Servitude - Bondage and Slavery in India (1986), Agrarian Relations and Accumulation - the Mode of Production Debate (1991); The Making of History – Essays presented to Irfan Habib (2000) and The Agrarian Question in Marx and his Successors in two volumes (2007, 2011).