The Politics and Economics of “Intermediate Regimes”

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Michal Kalecki used the term “intermediate regimes” to describe governments in which the lower-middle class and the rich peasantry could be identified as performing the role of the ruling class. Kalecki recognised that such governments would have to enter into some arrangements with the native upper-middle class; that such arrangements might range from “far-reaching nationalisation (usually with compensation) to a mere limitation of the scope of private investment coupled with attempts, as a rule rather ineffective, to adjust its structure to the general goals of development”; and that “the choice of the particular variant of dealing with big business is determined not so much by the ideology of the ruling class, as by the strength of the former”. Further, it was his view that the way in which land reform is carried out would limit the possibilities of increasing agricultural output, as small farms would be unable to expand their production under the prevailing agrarian relations. Nor did he expect farm labourers, workers in small factories, or the unemployed and the casually unemployed to benefit perceptibly from the growth process under these conditions. Nevertheless, and this is what is most significant, he thought the system could be politically viable.

Kalecki’s analysis of intermediate regimes deserves closer examination. From not only do the social classes (or strata) which stand between the proletariat and the bourgeoisie form the bulk of the population in most of the underdeveloped countries (as in Marx’s own time) but new forms of political and economic organisation, various technological advances, and the emerging international political alignments themselves offer a wider range of options to these countries than were available until the middle of the present century. Whether state capitalism can provide a viable economic basis for regimes dominated by one or more of these classes, their characteristics and tendencies it is likely to develop within this kind of political framework, and how much a system could evolve over a period of time in these countries are therefore questions of considerable importance today.

Their relevance to India needs hardly to be mentioned.

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

Kalecki noted also the conditions that had to be fulfilled for intermediate regimes to remain in power. They would have to gain a measure of independence from foreign private capital, carry out land reform, and assure continuous economic growth (the last of which he believed to be closely connected with the other two). The pressures exerted by imperialist countries in support of foreign private capital could be resisted with the help of credits obtainable from socialist countries. Land reform, even if open to evasion, could be used at least to deprive the feudal landlords of their strong position in political and social life. The intermediate regimes would then be able to promote economic development using the public sector as its main instrument. This, he pointed out, would be highly advantageous to the lower middle class and the rich peasants, for three reasons: (a) “state capitalism concentrates investment on the expansion of the productive potential of the country” and there is, therefore, “no danger of forcing the small firms out of business, which is a characteristic feature of the early stage of industrialisation under laissez faire”; (b) “the rapid development of state enterprises creates executive and technical openings for ambitious young men of the numerous ruling class”; and (c) “the land reform, which is not preceded by an agrarian revolution, is conducted in such a way that the middle class which directly exploits the poor peasants, i.e., the moneylenders and merchants, maintains its position, while the rich peasantry achieves considerable gains in the process”.

Kalecki recognised that lower-middle class governments would have to enter into some arrangements with the native upper-middle class; that such arrangements might range from “far-reaching nationalisation (usually with compensation)” to a mere limitation of the scope of private investment coupled with attempts, as a rule rather ineffective, to adjust its structure to the general goals of development; and that “the choice of the particular variant of dealing with big business is determined not so much by the ideology of the ruling class, as by the strength of the former”. Further, it was his view that the way in which land reform is carried out would limit the possibilities of increasing ag-

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"A beautiful face is a silent commendation." — Francis Bacon

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Agricultural output, as small farms would be unable to expand their production under the prevailing agrarian relations. Nor did he expect farm labourers, workers in small factories, or the unemployed and the casually unemployed to benefit perceptibly from the growth process under these conditions. Nevertheless — and this is what is most significant — he thought the system could be politically viable. In fact, he saw dangers to it only from strings that might be attached to aid from imperialist countries, as will be evident from the following extracts:

"...white-collar workers, and the not very numerous workers of large establishments — who in underdeveloped countries are in a privileged position as compared with the urban and rural petty bourgeoisie — are frequently, especially when employed in state enterprises, allies of the lower-middle class rather than its antagonists... The poor peasantry and rural proletariat are controlled by some of a local oligarchy comprised of the petty bourgeoisie (merchants and moneylenders), the richer peasants and small landlords. The urban population without stable employment and even home workers and workers in small factories are not too dangerous either, because they are permanently threatened by unemployment and are difficult to organise. "On the international scene, the international relations defend the intermediate regime... against the pressure from imperialist powers aimed at the restoration of the 'normal' rule of big business on which the foreign capital would play an appreciable role (though more limited than in the past). Without such external pressures it is highly unlikely that the amalgamation of lower-middle class with state capitalism would be destroyed and the classical capitalism restored." (Italics added)

Kalecki visualised the alliance in these countries, are still therefore questionable. The rich peasantry and in the middle class, and the rich peasantry, which would play an appreciable role (though more limited than in the past). Without such external pressures it is highly unlikely that the amalgamation of lower-middle class with state capitalism would be destroyed and the classical capitalism restored." (Italics added)

Traditionally, in Marxist (as in non-Marxist) literature, property has been taken to include only tangible assets such as land, machinery, commodity stocks and financial assets. However, since the possession of certain kinds of knowledge and skill — administrative, managerial, scientific, technical, etc. — makes it possible to earn an element of quasi-rent, in much the same way as does ownership of any other asset, it would not be inappropriate to treat this also (particularly under certain sociological conditions) as property taking a different form. If we do so, the income of those belonging to all such professions can be regarded as partly from property and partly from work; and a large number would consequently qualify for inclusion among the lower middle class (or the intermediate classes), a part even in the class above it.

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

Historically, the term 'middle class' came into use in Britain in the early years of the Industrial Revolution, and, till about the middle of the nineteenth century, it covered the rising industrial entrepreneurs as well as a range of occupations which had a common identity with them (common in the sense that their members rejected the values of both the landed aristocracy and gentry and of manual labourers). For this reason, it was at times referred to by Marx as the main class other than the working class which industrial capitalism had given rise to and whose development was in fact a pre-condition for the maturing of the working class concept. In other contexts, however, Marx listed the middle class as a category separate from industrial capitalists and separate also from the various occupational groups that have elsewhere been treated as part of it.2 There is, therefore, some ambiguity about the concept in Marxist literature itself.

There could be two reasons for this ambiguity. One is that the extent of differentiation called for when describing and explaining particular historical situations is usually very much more than might be essential in analytical models designed to draw broad generalisations about economic and social change. The other is that, in a period of transition, no rigidly-defined criterion or norm might be adequate to capture all the relevant characteristics of the prevailing social structure.4

There should not, however, be any scope for ambiguity when a whole set of important hypotheses — as about intermediate regimes — rest on this concept of the middle class. In this particular case, it is evident that, since Kalecki visualised the alliance in these regimes as basically between the lower middle class and the rich peasantry, and referred also to their 'numerical dominance',7 he had in mind as part of the lower middle class not only small proprietors in agriculture, industry and commerce (dependent to some degree on hired labour), but also a wide spectrum of the ill-employed (whose dependence on wage labour, if any, could only be marginal). A large number engaged in professions, such as medicine, clerical and administrative work and teaching (whether self-employed or working as employees), must also have been included among the lower-middle classes. By what criterion, one might ask, can they (and they alone) be lumped together in one category? Obviously it cannot be done simply in terms of a defined range of income, since grouping according to income levels alone does not fit in well with any analysis which seems to link classes with the Marxist concept of the "relations of production".

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

Traditionally, in Marxist (as in non-Marxist) literature, property has been taken to include only tangible assets such as land, machinery, commodity stocks and financial assets. However, since the possession of certain kinds of knowledge and skill — administrative, managerial, scientific, technical, etc. — makes it possible to earn an element of quasi-rent, in much the same way as does ownership of any other asset, it would not be inappropriate to treat this also (particularly under certain sociological conditions) as property taking a different form. If we do so, the income of those belonging to all such professions can be regarded as partly from property and partly from work; and a large number would consequently qualify for inclusion among the lower middle class (or the intermediate classes), a part even in the class above it.

The ruling class in intermediate regimes, as postulated by Kalecki, consists however not only of the lower-middle class (understood to mean, as indicated above, the intermediate classes between capitalists and workers) but of the rich peasantry as well. The rich
peasant is usually identified with one
who organises production with hired
labour (unlike "landlords", who depend
mainly on rentier income) but puts in
very little labour of his own, and might
also be deriving other property income
from activities such as money-lending.
It might be politic under certain con-
tions for the lower-middle class (or even
the proletarian) to enter into tempo-
rary (or permanent) alliance with the rich
peasantry (exactly as with capitalists
forming part of the native upper-middle
class); but it is necessary to recognise
that, once the rich peasantry is accorded
the status of being part of the 'ruling'
class, the resulting regime cannot any
longer be regarded as one dominated by
interests of even a broadly similar
class-character. In other words, the class-
composition of such intermediate regimes
(analysed in terms of production rela-
tions) is likely to be heterogeneous to the
point of there being very little in com-
mon among its two main constituents.
Questions such as: who wields effec-
tive power, or who has the upper hand,
and what it is used for in practice,
assume then very considerable im-
portance.

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

One important function the State can
perform is, of course, that of "dynamic
entrepreneurs", promoting development
by undertaking investment. But the areas
in which it chooses to do so may differ,
along with notions of what consti-
utes 'basic investment' and notions of
whether or not supplementary invest-
ment too should be undertaken by it.
This would, to a large extent, determine
the character and impact of state capital-
ism; for, through these and other related
policies, it could either promote or sup-
press the development of particular
interests in different sectors of the eco-

omy.11 The other important function
the State could perform is to help
mobilise and enlarge the volume of
investible surpluses in the economy. But
here again there are various possibilities:
for, the State may choose to depend
mainly on foreign aid for its invest-
ment requirements, or opt for increas-
ing surpluses in the private sector rather
than for surpluses accruing to itself, or
follow an aggressive policy of increas-
ing its own surpluses while at the same
time tapping the surpluses accruing in
the private sector. The choices made
in practice on both functions, and the
evolution of state capitalism itself, are
likely to depend on how the various
elements among the ruling class tend to
align themselves on relevant issues and
on who gets the upper hand thereby
over a period of time.

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

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

The one thing that all state enter-
prises have to do is to purchase inputs
and sell the output. Since intermediate
regimes are dominated by (or are in
partial alliance with) numerous social
groups who could secure considerable
gains in the process, they are invariably
under pressure from one group and some-
times from another — to follow price policies which in effect subsidise one segment or the other of the
ruling class and its main allies.

Such subsidisation is in fact the main
method available to these regimes for
retaining the support of this somewhat
heterogeneous mass. Very little investi-
ble surplus is likely to be thrown up by
state capitalism under these condi-
tions; and a stage might be reached
fairly soon when it is either wholly or
largely dependent on foreign aid for
its expansion or becomes stagnant.

Such problems, which state capitalism
has to face in regimes dominated by
the lower-middle class and the rich
peasantry, assume different forms. A
common experience is that the more
'basic' the investment undertaken by the
State, the lower generally is expected to be the price charged for the product
relatively to the price that might be
fixed by the usual economic criteria.
This is a reflection of the biases of the
ruling class, in the sense that, it tends
to judge the comparative advantages of
the system to a large extent in terms
of prices alone — more particularly, in
relation to the prices that might other-
wise be charged in a private capitalist
economy.12 Whether it is irrigation
water, electricity or steel the main argu-
ment against a higher price is that it
would hurt "the small man" (even when
it is the larger enterprises that are the
main beneficiaries).

Again, it is in the interests of the rich
peasantry to secure a high price as
possible for their marketed surpluses;
and, therefore, even if agricultural
growth is rapid enough to prevent
prices rising and being maintained at
high levels, political pressures develop
from this quarter for price support
operations by the government to keep
prices high. While the argument is

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

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

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

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

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

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

It is true that state capitalism, even if it becomes economically viable, would not by itself solve many of the problems faced by underdeveloped countries. Certainly if the state is dominated by the lower-middle class and the rich peasantry, the direct benefit of the system to the poorest sections of the society — the rural proletariat, the workers in small enterprises in the urban sector, domestic servants, etc. — is likely to be only to the extent that it promotes higher rates of growth and to the extent they stand to gain from such acceleration of development.

On the other hand, there does not appear to be anything more promising alternative available to these almost wholly underorganised and exploited sections of the society. It needs to be also recognised that, as long as 'intermediate regimes' function within a system of government based on universal adult franchise, the lower-middle classes are themselves ultimately dependent on them for political support; this dependence could grow and produce more concrete results as literacy expands and these sections of the society get politically organised. To the extent that state capitalism has the potentiality for being an effective substitute for large privately-owned enterprises, and could help to resist more successfully the intrusions that might be made by international companies deriving their power from the technology and organisation of modern industrial capitalism, it would be a gain in itself. If it also provides a framework within which further political evolution can shift the balance of power in favour of strata that are below the middle class now in position, it offers an opportunity that might not otherwise be available.

It is when the resource constraints on the extension of the public sector become pronounced, and hard choices have to be made, that the conflicts of interest within the intermediate regimes tend to surface. They disappear (or, at any rate, seem less unmanageable) when there are sharp spurs in output which make it possible to raise public investment without any immediate inflationary effects. It is not surprising in these circumstances that a high rate of economic growth is often suggested as the main solution. For, if it could be achieved, the resources available to the State could increase rapidly without radical changes in policy. A high rate of economic growth can be realised in underdeveloped countries, only with considerable increase in the rate of growth of output in the agricultural sector. It is, therefore, such acceleration of the growth rate in this sector that is considered to be the key to the whole problem, because then public works programmes and a variety of other measures can be devised to deal with specific problems. The impact of a high overall rate of growth, if achieved, can percolate to the lowest-income groups, even those dependent on wage employment, without necessarily a shift in income-distribution in their favour. Hence, policies and measures designed to achieve this end and to improve the efficiency of investment in general, have sometimes been advocated as the only 'relevant radicalism' worth serious consideration in these countries.

The main issue here is, whether acceleration in growth rates of the order required for this purpose can be achieved — particularly when the assumption made on the social and political side is essentially that the status quo will be maintained. It is, of course, possible to achieve high growth rates in exceptional circumstances such as when large oil reserves are discovered or when there are a series of technological breakthroughs in quick succession which enable substantial increases in production to be realised in all or most of the main products in agriculture. Such high rates of growth have been achieved in small countries, especially when for one reason or another, they also serve in effect as service-stations for more industrially-advanced countries. Not only is it highly unlikely that their experience can be repeated in the larger underdeveloped countries, but it is doubtful whether regimes willing to put through policies and programmes needed for this purpose will be of the kind postulated by Kalecki.

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

Intermediate regimes of this kind are, therefore, forced into a dilemma, partly by the objective conditions they face and partly by their own internal contradictions. What still keeps them going as a political reality is perhaps the fact that the upper-middle class are not strong enough to take over and those who do not share the status quo assumptions, on which these regimes are based, have no better alternative to offer.

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

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

The highly heterogeneous social structure of underdeveloped countries, and the problems arising therefrom even after revolutionary upheavals, have been recognised. The abuses that state enterprises in socialist countries can lead to, have also been sharply pinpointed (even if only as part of political polemics), and a number of other forms of organisation experimented with. Though interesting and valuable in themselves, there is no conclusive evidence however that these insights and experiments have succeeded in eradicating the danger. Even China, which has impressive results to show, does not appear to have set an organisational framework or procedures for dealing with the problem systematically; for, the Cultural Revolution not only required the active intervention of the army at various stages but ended in a manner that does not bring out clearly to what extent its objectives were in fact realised. Moreover, the appeal to social morality which has been considerably in evidence, though certainly important, could also be a symptom of weakness.

The problems that intermediate regimes face are, however, significantly different in character, since most of them have yet to find reasonably dependable solutions even for generating the surpluses needed for sustained economic growth. The public sector has served some limited purposes but, an account of the class composition of these regimes and their inability to enforce policies that can generate surpluses, not only is the growth of state capitalism itself blunted but it helps more to promote the development of private capitalism. To some extent the remedies can be expected to emerge out of the contradictions themselves and the realignments they lead to; but, given the highly fragmented and heterogeneous character of the social structure in these countries, one cannot be sure in which direction the changes will take place. Once the forces of private capitalism gain strength the bureaucratised and militarised apparatus of the state may well be used, like the instrument of state capitalism itself, to shift the balance of power further in their favour. If such a shift is to be prevented, and intermediate regimes made a transitional phase in the evolution towards a genuinely more broad-based political and economic system, they may need to shift altogether the alliance with the rich peasantry (and the 'upper-middle class' in general) and secure stronger (and more enlightened) organisational support from among the lower classes. Whether and how such a shift in alignments can be brought about, however, is a political processes about which little can be said on the basis of a priori reasoning.

[This is an extensively revised version of the Kale Memorial Lecture delivered at the Gokhale Institute of Politics and Economics, Poona, on March 29, 1973.]

Notes

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

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

3 Marx the revolutionary and Marx the dramatist of history developed a dichotomic conception of a class society. Marx the sociologist was compelled in his analysis of contemporary societies to infringe the sharpness of the dichotomic division by introducing intermediate classes. He could not overlook the 'mass of the nation ... standing between the proletariat and the bourgeoisie'. These intermediate classes were a very important element in the pictures of his own era given us by Marx in his historical studies. Stanislaw Ossowski, "Class Structure in the Social Consciousness" (originally written in Polish in 1957, translated into English by Sheila Patterson and published by Routledge and Kegan Paul in 1965), Chapter V.

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

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

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

6 "The perception of a stratified social structure divided into 'lower', 'middle' and 'upper classes', which are not understood as a simple graduation, would appear to be brought into use at times when new hierarchies are taking shape after an established system is overcome, and when the concept of 'high society' ceases to be identified with the closed circle of the hereditary aristocracy", in "Germany in 1915", by R. N. beach (1884).

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

It may be observed in passing that the need for actual numerical dominance, and the possibility of doing so with the support of "the middle strata of society", had been implied by Engels when discussing the conditions in Germany and France towards the end of the nineteenth century. "They (the German workers) supplied their country in all countries with a new weapon, and one of the sharpest, when they showed them how to make use of universal suffrage..." In France, where for more than a hundred years the ground has been undermined by revolution after revolution, where there is not a single party which has not done its share in the destruction of all and other revolutionary actions; in France, where, as a result, the government is by no means sure of the army and where, in general, the conditions for an insurrection come de main are far more favourable than in Germany — even in France the Socialists are realising more and more that their lasting victory is possible for them, unless they first win the mass of the people, that is, in this case, the peasantry.

The non-voters, form the most numerous, most compact mass, the decisive 'shock force' of the international proletarian army. This mass already supplies us with a fourth of the votes cast. If, in the course of this fashion, by the end of the century, we shall conquer the greater part of the middle strata of 'voter producers' and small peasants, and grow into the decisive power in the land before which all others will have to bow whether they like it or not.

Introduction (written in 1895) by F Engels to Marx's The Class Struggles in France, 1848 to 1850 (first published in 1850).

This corresponds closely to the first of the two types of trichotomous division of social classes referred to by Ossowsk. "In construing his theoretical system, Marx set up the foundation for another conception of the class system, by placing the intermediate position between the class of capitalists and the proletariat. This conception was not in fact formal form from Marx and his pupils. It is, nevertheless, related to the scheme of class structure of the capitalist society that is characteristic for Marx's system, a scheme in which three social classes correspond to three kinds of relations to the means of production. In this scheme the intermediate class, which Marx usually calls the 'petit bourgeois' regardless of whether reference is being made to urban or rural dwellers, is determined by the simultaneous application of two criteria. One criterion is the ownership of the means of production. The proletariat is work... the intermediate class consists of those who belong to both the overlapping categories; those who own the production and themselves make use of them. Marxism applies still another version of this trichotomous division... In it the first criterion of division (the ownership of the means of production) remains the same. On the other hand, the second criterion is not work but the fact of not employing hired labour. In this version the intermediate class is more narrowly defined than the earlier one... Sociologically speaking, the first version is more suited to describe some cases; the second more suited to others... Op cit, Ossowsk, pp 76-77.

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

More than was it needs to be recognised that, in Marx's lifetime, the organisation of higher education, scientific research, and of the application of the results of scientific research, had not taken the form of an industry as now. If it had been, he might well have included in his schema of re-production another compartment called perhaps "the knowledge industry" and given a part of it much the same kind of social structure as the goods industry. Such an extension of Marx's scheme, in regard to the forces of production, might also help to underwrite the case that the State plays in capitalist countries by heavy subsidisation of "R & D" activity in the private sector (through the education and defence budgets) as well as by the direct some of the similarities between the social structure of capitalist and socialist countries.

10 "Most of the rich peasants in China let a part of their land, practise usury, ruthlessly exploit the farm labourers and are semi-feudal in character. But generally the rich peasants engage in labour themselves, and in this sense they are part of the peasantry. Their production activities will remain feudal in tendency. But generally they might contribute some effort to the anti-imperialist struggles of the peasant masses and may stay neutral in the agrarian revolutionary struggles against the landlords. Therefore, we should neither consider them as of the same class as of the landlords nor adopt prematurely a policy of liquidation of them. This position, as stated by Mao Tse-tung in 1939 (Cf: The Chinese Revolution and the Chinese Communist Party, Chapter Two, printed in Mao Tse-Tung Volume Three), was substantially maintained even in 1950 after the Revolution. For instance, the Agrarian Reform Law promulgated by the Central People's Government in June, 1950, laid down that "land owned by rich peasants and cultivated cooperatively by land rents out by rich peasants and by hired labour and their other properties shall be protected from infringement". Only if portions of land rented out by rich peasants "serviced" and small producers and of state capital, it is not the same kind of social structure as the goods industry. Such an extension of Marx's scheme, in regard to the forces of production, might also help to underwrite the case that the State plays in capitalist countries by heavy subsidisation of "R & D" activity in the private sector (through the education and defence budgets) as well as by the direct some of the similarities between the social structure of capitalist and socialist countries.

11 It is interesting to observe that Lenin regarded the interests of small producers and of state capitalism to be wholly antagonistic to each other. "Clearly, in a small-peasant country, the predominant element will be the petit-bourgeois element, nor can it be otherwise, for the majority and the great majority of the tillers of the soil are small commodity producers. Hence, the shell of state capitalism (grain monopoly, state-controlled producers and traders, bourgeoisie co-operators) is pierced,
now in one place, now in another, by profit-seekers, and the chief object of profit-seeking is gain... Money is the key to opening the posterior to receive social wealth; and a vast stratum of small proprietors, numbering millions, clings to this centre. The chief card it from the 'State'. The petit bourgeoisie, hoarding their thousands, are the enemies of state capitalism... When the working class has learned to build up a great nation-wide State organisation of production on state capitalist lines, it will have... all the trump cards in the hands, and the consolidation of socialism will be assured".

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

13 While pressures in the direction of lower prices exist under other kinds of regimes as well, the notion that public enterprises should yield profits and a reasonably high rate of return finds more ready acceptance in capitalist countries, and this acts as a brake on the tendency to lower prices beyond point. The view that public enterprises should not only yield a reasonable rate of return but that they should be managed strictly on 'business and commercial principles', and that their profitability is the index of their efficiency, is often put forward in a form that is indefensible. See, for an unconventional discussion of this question, the John Mathai Memorial Lectures delivered by Amintha Sen, in the University of Kerala in March 1970, on "Profit Maximisation and the Public Sector" (Oxford University Press, 1972).

14 Since the rich peasants depend to a large extent on hired labour, and they usually supply a larger proportion of their output as marketed surpluses than others, the case for taking into account the costs of such hired labour appears to be obvious once the principle of fixing agricultural prices on the basis of the costs of production is accepted. Such an argument could be carried further to include all labour input, including the imputed value of the services of family land and labour. "A floor price covering the complete average cost (or the best available approximation to it) would induce the commercial farmers, who are actually paying for the services of land and labour, to earn more profit by reducing their cost; and it would give other farmers a cash income over and above their paid-out cost which would improve their capital position and working capacity and enable them to invest and innovate more than before. With the growing commercialisation of agriculture, we need a forward-looking floor". Cf: Raj Krishna, 'Food Policy', Economic, Vol 23, October 27, 28, and 31, 1964. This argument does not explicitly recognise that (a) it is the larger farmers who would benefit more from such a floor price, since the proportion of marketed surplus of output is likely to be much higher in their case; and (b) a floor price that would enable smaller farmers to have an average level of income and consumption could be very different from that which would cover all costs (in the manner defined for the larger farmers). In India, the Agricultural Prices Commission seems to have formally accepted the criteria of price fixation put forward by Raj Krishna when it made the following observations in 1965: "Price support policy contributes to growth by inducing the farmer to adopt improved technology without fear of an excessive price fall. For providing such insurance, the minimum price should be related to the cost of cultivation, properly defined and measured... Only the cost of the relatively efficient and innovating farmers is relevant for this purpose". Cf: Report of the Agricultural Prices Commission on Price Policy for Kharif Cereals for 1965-66 Season (Ministry of Food and Agriculture, Government of India, 1966), p 2. The Commission left a little vague what is the proper definition of the costs of cultivation.


16 Incidentally, as in the case of agriculture, price support benefiting the rich farmer more than the smaller farmers, many of the other policies followed by intermediate regimes of this kind, such as keeping the prices of inputs low, contribute generally more to the development of the 'upper-middle' class than of the 'lower', even if it happened to have any deliberate intention to do so.

17 "... the State's role as an employer receives greater emphasis than its function as an agent for development - an attitude which in effect refer"s to the unuttering stripping middle sectors for job-security, in the bureaucracy". See Alistair Hennessy, 'Latin America', in Populism, op cit.


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

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

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

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

23 Lewis not only believed that India needed to make the gross national product grow at the rate of 7 per cent per annum but thought that it was within immediate reach because "the agriculture sector has shown what the green revolution has and has not been able to achieve. For such an analysis, see Dharm Narain, "Agriculture" (Indian Society of Agricultural Statistics, March 1972).

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

25 The forces whose support needed to be mobilised were clearly identified in China before the revolution became a reality. "The middle peasants become the majority in the countryside after the agrarian revolution. The poor peasants in China, together with the farm labourers, constitute about 70 per cent of the rural population... only when the proletariat has concluded a firm alliance with the poor peasants and middle peasants can it lead the revolution to victory, a thing otherwise impossible." Op cit. Malin (1939).

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

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

28 "The privileged stratum in contemporary Soviet society is composed of degenerated revolutionaries arising out of among the leading cadres of Party and government organisations, enterprises and farms as well as bourgeoise intellectuals... They are abusing their powers over the means of production and of livelihood for the private benefit of their small clique." Cf: On Kuruschev's Phoney Conferences" (Foreign Languages Press, Peking, 1964).

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

30 In this connection, a prophetic observation made by Bertrand Russell, after a visit to the Soviet Union in 1920, is worth recalling: "All these difficulties are in no way peculiar to Russia, but are bound to occur in any undeveloped country which attempts a method of development disliked by foreign capitalists. But though the difficulties are great, they are not economically insurmountable; by sufficient honesty, determination and energy on the part of the rulers they could probably all be overcome in time." This brings up to the moral factors of success. It is here that those of the Bolshevik programme are greater. Few governments in history have had more honesty, determination and energy than the Soviet government; yet it may well be doubted whether even they, in the end, will be found to have enough for the carrying out of their original intentions. When the Bolsheviks speak of the period during which the dictatorship will have to continue, they seem to contemplate at least a generation. Meanwhile, many of the people they will have destroyed, while those who remain and those who replace them will have acquired the habit of arbitrary power. The practice of negotiating with capitalists and their governments will tend to produce an acceptance of their assumptions, as it often does in trade union leaders...

Cf: Bertrand Russell, "The Prospects of Industrial Civilisation" (George Allen & Unwin, 1923).

31 Since technological advances have opened out ways of making production in small enterprises efficient in agriculture and in many other industries, it is possible to visualise a pattern of growth in which state capitalism (more particularly, state ownership of industries in which there are economies of scale) is effectively amalgamated with the interests of other sectors. The problems involved in enlarging the surpluses generated by state enterprises, and in materially advancing the interests of the unorganised proletariat, will of course remain; solutions to them can be found only through political processes, perhaps over a fairly long period of time.

Tanfort Tyres

TANFORT TYRES, which was expected to commence production early this year, is now likely to roll out the first Tanfort tyres by the end of August. According to the Times of India, the delay occurred owing partly to shortage of cement, which impeded progress of the construction work, and displacement of movement of machinery from the manufacturers' factory in Calcutta to Bangalore owing to "unsafe conditions" in Andhra.