CHANGING CONCEPTIONS OF THE ROLE OF STATE IN WORLD BANK

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CERTIFICATE

This is to certify that the dissertation entitled **Changing Conceptions of the Role of State in World Bank** submitted by K.R.JAWAHAR in partial fulfilment of the requirements for the award of degree of **Master of Philosophy** of this University is his original work and may be placed before the examiners for evaluation.

This dissertation has not been submitted for the award of any other degree of this University to the best of our knowledge.

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INTRODUCTION

The present study is about 'choice' and the 'freedom' to exercise that choice. Choice could be with regard to anything that affects and determines one's life. At another level, choice exists when a state decides as to what form of political, social and economic organization is best suited for the welfare and development of its people. This decision derives its legitimacy from its people. It is well recognized that the character of our social, economic and political future is increasingly dependent on the role to be played by the state. The study is therefore with regard to the role of the state in economic development of the Third World. Nowhere else the dictum that 'men more than before now live in the shadow of the state' applies better than the Third World societies. This is because, in the post second world war era that has witnessed the maddening race to be 'developed', the state has been the central agency for production and distribution in the Third World thus giving it an important centrality.

However the prevalence of extreme poverty, inequality and underdevelopment led to the Third World being termed as backward. Towards realising the aim of economic development in these societies came the historic concern and effort of the western developed world. This concern was reflected both in theory and practice. While the western model and path of development was provided and sought to be transplanted in the Third World as a theoretical benevolence, the massive flow of development aid as well as other supports in military and other sectors symbolized the 'practice'. The central assumption was that the Third World would follow the same path as traversed by the West. Development finance institutions like the World Bank and the International Monetary Fund were given life towards assisting the theory and practice and became a huge symbol of the western effort towards Third World development. The working principle was that, enormous aid tied within the development approach of the West would very soon produce the same results in the Third World. That the Third World itself was based on a 'difference' as seen in the evolution, national priorities and the chosen path of development was overlooked. The official policy of lending institutions like the World Bank was that development is a one way path and necessarily of the western model. The only task was then to bring the non-western states onto this path by every possible means. What is this path? How is it relevant for the Third World states? Are there any alternatives for the states caught in the transition process? These are the basic concerns to be addressed in this study.

The first chapter sets down the parameters within which the policies, programmes, methods of the World Bank could be evaluated. Over the years, the Bank has come to acquire and advocate a particular view of the role of the state in economic development. History has shown the existence of different forms of state worldwide that were characterised as absolutist, liberal, socialist, communist. The basis of such classification is the nature of the state and the role it performs. The role of the state essentially depends on the form of state that exists. The discussion on the forms of state and the role of state within each form therefore aims to provide an answer to two questions. Firstly, what is the view of the Bank on the role of state and what are its basis? Secondly, what form of state emerges when a particular role, for example as the Bank states, is performed by a state? These two questions are linked to the debate that has taken centre stage today in world affairs. This is the state versus market debate, to determine the best approach towards development. The Bank also represents this debate with a specific solution as would be reflected in the chapter. Moreover the application as well as the consequences of such application of the Bank's conception would be evaluated empirically in the case of the Central Asian States. The effort is to determine whether the model provided by the Bank is relevant for the Third World with its own specificities and differences from the western world. The framework of examination of the Bank is the separation of econimcs from politics; another issue dealt in the chapter. Any kind of 'politics' in issues of 'economics' that affects the people or a state is abhorred. Therefore, the Bank's policies, conception and application would be examined from this standpoint.

The second chapter illustrates the difference that characterises the Third World, both at the level of theory and application. What is the distinguishing feature that demarcates the two worlds? Third World in the post war era has sought to realise development in a much lesser time than the West did. This project, therefore, gives a centrality to the state in the Third World, for it has been assigned the tasks of national consolidation and economic development. State in Third World societies is all comprehensive, all pervasive and exercises control over the production and distribution processes. How different is this role from that advocated by the Bank? Moreover the character of state power in the Third World is impacted upon by the nature of social composition thus giving a complexity to the efforts and results of state intervention for economic development. The reflection on the various conceptions of the role of state in the Third World would highlight the difference in the theory and the exposition on the Indian State's effort at development would show the 'practice'. That this difference of the Third World is sought to be transplanted by the western model also forms a major concern of the chapter. The World Bank, therefore, advocates a particular role for the state to perform. A change of discourse on the role of the state happened in India in 1991 under the Bank and IMF's influence. This is the last section of this chapter reflecting on the nature of domination exercised on the Third World states and also the direction towards which such domination pushes these states.

Role of the state in economic development of the Third World is essential as well as crucial. But the operating principle of the Bank envisages a different framework for the state. What is this conception and what is the role assigned to the state in it? Is it different from the one that the state undertook in the Third World after independence? The third chapter reflects upon these issues and also puts forward the structures and means of influence that are used to obtain desired changes in the political and economic structure of the Third World. How the Bank employs its conception, aid and conditionalities on the Third World states are the concern of the chapter.

As a pointer to the basic assumption that there can be no practice without a theory, the conception of the bank could be seen from the parameters laid out in the first chapter. The outlook towards development has changed drastically since the 1970's. The emphasis of the western developmental philosophy has shifted to the free market approach. According to it, this is representative of the foundations of the western societies itself which are individualism, private initiative, competition, efficiency and the capitalist organization of the society. Linked to this emphasis was a grand concern towards democracy as the final form of human organization in the world. This was also rooted in the western experiences. The new view that developed has been termed as the neo-liberal approach that links democracy with development. Moreover together with democracy, free market approach is the dominant theme of this ideology that came to dominate the western discourse on development. The view that emerged was that it was only under this approach that the Third World could realise development and get rid of its poverty and backwardness. The significant aspect was that the development finance institutions like the World Bank and the IMF became the proponents and the executive arm of this ideology and tied down their aid and loans to conditionality structures that sought to transplant the existing structure of the Third World with the one envisaged under the neo-liberal view. However this was claimed to be purely a technicist approach towards development in the Third World. Moreover the collapse of Soviet Union that characterised an alternative approach to development became the rallying point for the efficacy of the western model. The West and lending institutions like the World Bank therefore signaled the triumph of capitalism to the Third World.

However the question is that whether the neo-liberal approach to development that the Bank is imposing on the Third World is suitable to these societies? What role is assigned to the state in this framework? What are the fallacies or contradictions, if any, in the conception as advocated and held by the Bank? The last chapter by providing a critique of the conception and application of the neo-liberal approach of the Bank seeks to answer these issues. The sets of criticism in this chapter are in addition to the several undertaken in other chapters. Taken together, all these provide an insight into the contradictions on which the Bank has built its conception and thought towards development in the Third World.

Development that is equitable, sustainable, sensitive to the society structure and importantly, is able to reach those for whom it is meant is a cherishable goal of all. However any approach to development should also take into account, the nature of the society, its priorities, foundations etc., where it is being applied. Also the fact that there cannot be only one way towards development has to be accepted. There are alternative approaches from which a society has every right to choose and therefore nothing can be imposed on it. There is and there does exist a 'difference'. The issues raised in the study are many but are linked to one another and serve as a broad parameter for examining the conception of the role of the state as advocated by the World Bank. The central assumption remains that there can be no practice without a theory and also that both theory and practice differ from individual to individual and from state to state.

CHAPTER I

WORLD BANK: ISSUES FOR ANALYSIS

Everyone likes to develop whether it is an individual, a group or for that matter, a state. Development here means a positive change in the living conditions of the population. Development includes a change in economic, social and political life of the people. This change is progressive signifying the advancement of the society or state as a whole. Development is often equated with economic development. But it is a comprehensive term that subsumes all aspects of the life of an individual, society or a state. Together with the more recent concepts of social and political development, it forms the phenomenon historians designate as 'modernisation'. Moreover to initiate, direct, regulate and sustain the comprehensive movement known as economic development, that would touch, affect and shape present and future generations significantly, an overarching and all comprehensive institution, namely, the State is essential. This is more so in the case of the Third World. The concern of the present work is the economic development in the Third World and the role of the State in it, independently and as perceived by 'other' institutions.

Modernization thesis as advocated by western theorists puts forward the view that Third World development would be based on the western experience. Essentially a western construct, modernization includes industrialization, economic growth, political participation, increasing social mobility, national welfare and abundance. Development therefore essentially was seen in the modernity as attained by the West. This was sought to be transplanted in the Third World.

The Second World War was a break-off point after which the world witnessed rapid and unequal economic developments across national territories leading to the categorisation of the globe into three worlds with reference to their relative position as well as programme of development. The Third World offered a new look with the newly independent States embarking on the path of national consolidation through the process of economic development, a path already traversed and charted elsewhere. However most of these countries emerging out of centuries of colonial exploitation faced a common problem that was the lack of resources essential to construct institutional and support structures that would facilitate rapid economic development. For countries like these, world leaders met at Bretton Woods, New Hampshire, U.S.A. in July 1944 to set up the International Bank for Reconstruction and Development (IBRD) popularly known as World Bank.[1] However the Marshall Plan took over the Bank's primary task of assisting European reconstruction and subsequently it turned and focussed all its resources and attention towards Third World development. Along with the World Bank another institution, its sister concern, the International Monetary Fund (IMF) was also set up towards the same end though with different operational areas.

The IMF was formed to regulate, supervise and promote free flow of international payments based on a system of fixed currency exchange rates and the Bank was to provide for long-term funds for investment in productive endeavours in the developing and less developed States. Significantly, the membership and access to the funds of Bank was conditional on membership in the IMF.

As one of the drafters remarked:"Basically we wanted to force States to agree to standards in the monetary field as a condition to get the benefits of the Bank."[2]

SECTION A

THE WORLD BANK GROUP

The institutions comprising the group are, firstly, the International Bank of Reconstruction and Development (IBRD) whose main aim is to help reduce poverty and to finance investments that contribute to economic growth. Secondly, the International Development Association (IDA) founded in 1960 that provides for concessional loans to poor countries. Thirdly, the International Finance Corporation (IFC) founded in 1956 that backs loans for private sector investment in member countries without guarantees of repayment by the member State. Fourthly, the Multilateral Investment Guarantee Authority (MIGA) founded in 1988 that encourages the flow of private foreign investments to the Third World by acting as a guarantee against risk. Lastly, the International Centre for Settlement of Investment Disputes (ICSID) that helps promote international investment through conciliation and arbitration of disputes between foreign investors and their host countries. Though the term 'World Bank' in official literature only refers to the IBRD and IDA this work will take into its reference all branches of the group as constituting 'World Bank.'

The World Bank uses its money and staff and coordinates with other organizations like the IMF to individually help each developing country onto a path of stable, sustainable and equitable growth. The main focus is on helping the poorest people and the poorest States. Its emphasis is on investing in people, protecting the environment, supporting private sector development and promoting transparency in government functioning. The Bank's objective in the 1950's immediately after its establishment was to support private investment across borders. It aimed to participate in the development process through its funds as well as to conduct its operations with due regard to the effect on the member countries economic environment. It has traveled a long way both in its conception and application. This is visible in its objective in the present times as summed up by its current president James D. Wolfenson as "what we as a development community can do is to help countries by providing finance but even more importantly, by providing knowledge and lessons learned about development challenges and how to address them..."[3]

The Bank was, as Payer states, conceived as a safe bridge across which private investment could move again into distant and politically volatile territories. Robert W. Oliver's words form the essence of the Bank's aims and operations. The main objective of the Bank, according to him, was to provide a world within which competitive market forces would operate freely and unhampered by government interferences. The Bank supposed that market forces would produce optimum results for the entire world.

With regard to its organisational principles, the charter provided that the principal office of the Bank as well as the President should be from the member country holding the greatest number of shares. Voting in both, the Bank and the IMF was in accordance with the quota of shares held by a member state. Thus the Bank reflects U.S. dominance since its inception for the latter controls 28% of the voting power as compared to the combined voting power of the Third World which is around 10-12%. Apart from the U.S., Europe and Japan also hold a dominant influence on the Bank, the former because of a collective identity and the latter due to its economic might. It is a fact that these three are the power centres of the world. Despite their differences of opinion on issues between, they all act as a block within the Bank when the matters of the Third World come up. In the present day world these three are the major powers in all the international organizations and within the World Bank they operate in unison when any issue affecting their interests and objectives comes up. All this was in contrast to the hopes of Lord Keynes who desired multilateral institutions to be operated as autonomous and technocratic entities, free from the vicissitudes of national politics.[4]

The World Bank thus became the biggest, richest and the best development finance institution in the western world providing a development model of the West to be adopted and put into practice by the Third World. The dominant political economy of the developed capitalist world became the philosophy that provided itself as the 'western effort' towards the economic development of the Third World and the World Bank and the IMF because of their origin, location and purposes became the medium for this.

People and elites of the Third World accept the centrality of the 'State' to economic development in the Third World. Leaders of Third World states like Nehru, Castro and others also articulated this. However, the West and the Bank do not accept this. That is why its role, sphere and nature of intervention are central to the Bank's policy pronouncements and conditionalities, the objective being to further the free market system and providing protection to global private capital by reducing the functional sphere of the state. The Bank, for safeguarding its money, as well as to facilitate private enterprise, provides a conception of development, which it states is best suited for the Third World. It also spells out the role of the State in this model of economic development. It is relevant and significant to trace the foundation of such a particular view of the role of the State. Therefore as part of a theoretical exercise, an overview of the different conceptions of the role of the State that prevail in the western world would be undertaken. This is in order to locate the basis of the worldview held by the Bank with regard to the role of the State in economic development. The belief central to this exercise is that there can be no practice without a theory.

I. CONCEPTIONS OF THE ROLE OF STATE

The period of evolution of the State, from the earliest times to the present modern state in the western societies is spread over centuries. There have been times when the 'State' as we know it did not exist. The State as we know, came into existence when men and women started living in an organised way within territories and under some form of institutional arrangements to regulate social life. From the times of early city-states or 'polis' to the present' modern state,' the concept as well as the institution has traveled a long way. Different theories of the origin of the state emerged to put forward a clear understanding of the evolution process. Kinship theory as advocated by MacIver saw the evolution from the level of family to the society and then society created the state. Historical evolutionary theory, another popular viewpoint, advanced the holistic view that the state was a creation of different factors like force, religion and economic factors. The Marxian theory stressed that inequality in the society creates hierarchy and the need to preserve this hierarchy led to the creation of the state. In light of these, it could be said that the state emerged for the tasks of organizing the life of the people. Therefore, at every stage, the nature of social forces defined the limits and sphere of State activity and its extent of control over the social, political and economic life of the people. It would be relevant to quote Roberts who defines State as "the presence of a supreme authority, ruling over a defined territory, who is recognized as having power to make decisions in matters of government and is able to enforce such decisions and generally maintain order."[5]

With the organisation of the economic and social life of the people, the state became an important institution that superseded all other institutions of the society. The sphere of state activity went beyond enforcing law and order to the more complex tasks of economic, social and political development. The extent of state intervention in the economy however, depended on the form of State that existed at that point of time. In the following pages, the role of the State in the economic sphere under different forms of State existence would be outlined in order to understand as to how the state sphere is defined by the form of state itself?

A. The first clearly organised State form was the Absolutist State that represented the transition between the many varieties of feudal State and the 'bourgeois' constitutional State. Absolutist State emerged both in the West and the East though they differed in their social character. In the West, it was founded on the social supremacy of the aristocracy and determined by the interests of propertied sections. The state introduced standing armies, a codified law, national taxation, bureaucracy and a unified domestic market. However, it was based on a contradictory nexus between public office and private persons reflecting the presence and interference of a monetary economy and its future masters, the capitalists bourgeoisie. Increase in state power was accompanied by a corresponding increase in the rights of private property because of this nexus. As Anderson states, " the age in which the absolute public authority was imposed in the West was also simultaneously the age in which absolute private property was progressively consolidated, all reflecting the arrival of capitalism."[6] It was to this force of capitalism that the state adjusted its paramountcy and to which it finally fell.

Unlike the West, the Absolutist State in the East though coeval with the former yet was basically different. Here the state was a device for consolidating serfdom in a territory scared of autonomous urban life or resistance. The policies of the state were stiflingly anti-urban and what emerged was a service state that defined the activities and obligations of all people and sectors. It displayed its class composition unequivocally and more patently than its western counterpart. It was this social character that produced different results in these two variants of absolutism. The Absolutist State in the West was defeated and overthrown by bourgeoisie revolutions from above and below thus establishing capitalism. The Absolutist State in the East (Russian Empire) was finally destroyed by a proletarian revolution that symbolized the demand for establishing an equal society. The Absolutist State embodied the decline of feudalism and became a means to oversee the emergence of capitalism in the West. The characteristic feature of this was the locus of power. As Andrew Vincent states, "in the absolutist theory of State, the public power is the absolute sovereign person (whether fictional or real) embodying the divine rights and owning the public realm."[7]

The state was overarching, all comprehensive and the 'march of god on earth.' The dominant economic philosophy of the Absolutist State was mercantilism, under which it assumed a directive role in the economy. Therefore, within absolutism, more unified, Statewide national economies emerged. As Hall observes, the movements of trade, commerce and capital undermined the dense local structures of feudalism and the territorial boundaries increasingly coincided with the limits within which the State could effectively impose a uniform system of law, order and administration.[8]

The role of the State in the economy thus mirrored the form of State itself. It was an economy totally managed, directed and regulated by the State through its enlarged bureaucracies. However the process of industrialization witnessed the shift from the Absolutist State to the Laissez Faire State, an event that structured the relations of States as well as the history of the world.

B. Classical Laissez Faire embodied the delimitation of the State to the functions of preserving law and order. The state under this form was the harbinger of peace, law and order and dismantled the structures that came in the way of the new feature of western political economy i.e. the 'market'. As Stuart Hall points out "the State was 'forced' into a more liberal path by the demands of the rising capitalist classes associated and benefiting with their economic developments."[9]

In this form of the State, the individual was apriori of the state and not vice-versa. State interference in the individual liberties couldn't be tolerated and had to be sanctioned legally. The chief purpose of the State was to protect individual life and property and the defence of the country. It was kept out of the economy, which was left to the free play of market forces that would decide the shape and structure of the economy. Britain in the 18th and much of 19th century represented this form of State and significantly this era marks the period of rise and consolidation of industrial capitalism.

The dominant political theory of the times also mirrored or rather provided the foundation for this change in the role of State. Rise and preeminence of individualism and individual rights of entrepreneurship found place in the political pronouncements of thinkers like Adam Smith, J.S. Mill and others. The justification of this form of State organisation was reflected most in the political discourses such as Adam Smith's Wealth of Nations (1776). He advocated and vociferously supported Laissez Faire or no State intervention. He believed that economic energies were present in the society which, once unleashed, would naturally flow forth and provide for a healthy and competitive economy that would allow the growth of capitalism. Capitalism to Smith allowed maximum liberty to the individual as he noted the elective affinity between capitalism and liberty.[10]

Thus the Laissez Faire State came into existence and though continental competition allowed some space for State intervention it was chiefly towards protecting individual resources and interests. State in this form had as its chief function the setting up of a policy framework with regard to the economy, regulating and directing the key sectors while leaving the majority space in the economy to the free play of market forces. The market would then decide what to produce, how much to produce, for whom to produce as well as the prices.

These developments of theory found place in the real world and led to the emergence of the liberal capitalism based on the twin foundation of maximum liberty and free market economy. It was a phenomenon that revolutionised global economic interaction, influenced economic theories and philosophies and became the unhindered engine for the rapid growth and establishment of capitalism as an ideology as well as a form of economic and political organisation of States in the West. This was to be imitated and transplanted in other parts of the world where conditions favourable to it existed. This phenomenon unleashed the flow of capital and brought into the annals of history, imperialism and exploitation of colonies to protect and promote capitalism at home. Under such a State arrangement, that had the least 'State' in it, Capitalism flourished and so did the capitalist class, the numerical minority.

However, the majority of the masses and specially the working class struggled to have a more equitable position vis-a-vis the capitalist class in the whole arrangement whose extreme contradictions were shown by Karl Marx. Marx based his critique of this capitalist order by drawing upon Ricardo's theory of labour value and exposed the process by which the surplus that is essentially 'labour value' was appropriated by the capitalists. The working classes or the numerical majority were pushed to the lower rung due to selective concentration that this State form allowed.

This majority organised and by their movement brought a fundamental reform of the classical liberal State as different from the classical Laissez Faire State by implanting the liberal democratic ideals on the State form. Laissez Faire helped and assisted the onward march of capitalism through the western world unleashing waves of competition in which the better endowed benefited. The case for a more directive, interventionist State able to act and plan on behalf of the society came especially in Britain where the working classes, poor and unemployed supported it. This section believed that only through the State could reforms be imposed on the ever-growing capitalism to promote greater economic equality and social justice in terms of equality of opportunity. The debilitating fact of capitalism that provided the opportunities to the privileged classes by accident of birth, ownership and control of productive resources could then be removed. This heralded the birth of a new State form.

C. Reforms induced into the Laissez Faire capitalism gave birth to the Welfare State in Britain and then in all other advanced capitalist States. Based chiefly on the ideas of socialist thought and development economics mirrored in the works of Keynes, Welfare State symbolised a democratic State within the traditions of liberal democracy. As David Held states, "the wider sense of Keynesianism is more socialistic though in a narrow economic sense and associated with works of Kalecki who emphasized on more planning and socialization of investment and an economy that was managed for the welfare of all its members."[11]

This form of State arrangement provides for a more active role for the State in the economy through measures of welfare, benefits etc. It ended the strict Laissez Faire State that couldn't address the onslaught of capitalism on the weaker sections. The State in this, became a manager and a partner in the economy though the degree of control that the State exercised differed from sector to sector. State intervention was in the form of policy formulation, regulation and using political power deliberately to modify and regulate the play of free market forces towards specific social directions.

A different version of 'Welfare State' emerged in U.S.A. under the 'New Deal' package that brought State control over the economy in a different manner. Under this, the State set the policy guidelines and ensured uniform measures of welfare for everyone. However the distinct feature was that more than 90% of the economy was left to the private sector, to the forces of market. "This trend," Miliband states, "reflected the dominant pluralist view point of the western State that it is composed of a multitude of pressures from organised groups and interests and it cannot show any marked bias towards some and against some. Its special role, in fact, is to accommodate and reconcile all these interests."[12] State here had to act for the common good, to work as the coordinator between public good and free market forces of capitalism. However the espousal of an active State led to an over active State. This brought the call for a simpler form of Welfare State with reduction in intervention and maximum freedom to markets.

All the State forms dealt with till now, appeared in the western world and were linked to each other in the common principles and theoretical foundations on which the role of the State was narrated. At this juncture it becomes relevant to outline a totally different form of State arrangement, radically different from the ones dealt till now. This was the emergence of the Socialist State based on the works collectively called as Marxism. This alternative viewpoint not only shook the existing notions but also brought forward in itself, a huge wave of influence that could be looked upon as similar to the one that came earlier i.e. capitalism.

D. At the same time as the advancement of capitalism and State arrangements often identified as advanced capitalist States, there was the emergence elsewhere, of radically different tendencies. This was the onslaught of revolutionary collectivism that resulted in the emergence of the Communist State in Russia and China and extended to the eastern European States after the War. This model had a transitory phase of socialism that visualised a Socialist State directing, regulating and controlling the society towards a more egalitarian existence that would negate then the existence of State itself. This philosophy of the Socialist State gained ground worldwide and specifically in the Third World after the 1940's, when 'socialistic pattern became the principle of State policy.'

"In this form," Hall states, "the Socialist State and politics take command and inaugurate a regime of national mobilization and strict regimentation. The State now, owned enterprises, was responsible for national economic policies, fine tuned the economy, regulated income and wages among classes and edged towards the bargaining between State, capital and labor."[13]

The declared purpose of the State, Miliband opines, was the ultimate transcendence of the capitalist system and its replacement with a Socialist system based upon the appropriation into the public domain, of the largest part of the means of production, distribution and exchange, including the most important and strategic sectors of industrial, financial and commercial activity. It was held by some that advanced capitalism cannot in fact survive without entering into a partnership with a powerful State. The Labor government in Britain, elected in July 1945, sought this end to bring about State control of the capitalist drive and to promote socialist measures for the masses.

The Socialist State with a huge presence in the economy rested on the negation of, what Vincent calls 'class theory' in which the public power is the institutional form of condensation of dominant class interests which is ultimately directed to the accumulation of capital and the defence of private property.[14] The operational philosophy and principles for this transformation was provided by the great humanist Marx who sought to unravel the exploitativeness of capitalism as well as State participation in it. Different positions came within this, between traditional Leninist, that called for the destruction of the State and the social democratic viewpoint which according to Wright, sees the State as the preserver of the capitalist system as well as the promoter of social equity and development.[15]

State in this kind of arrangement performed the most important role of checking the advancement of vested capitalist interests and through its intervention sought to build an order based on equity. The fundamental difference that socialism brought was that it politicised the economy by eliminating the power of capital and restructured the distinction, fundamental to all capitalist societies, between the economic order and its superintending political regime.[16] Thus within such a State form known as socialism the State had a mission to perform; a mission for which there is no parallel under capitalism or in any preceding historical epoch.

E. The advent of pure forms of socialism as well as of incorporation of socialistic principles within the existing Capitalist State arrangements worldwide, witnessed a strong intervention of the State, dominantly in the economy and also in the society. The former, reflected, in huge public enterprises, command planning and centralised growth strategy towards a just social order. However due to the depression of mid 60's and 1970's that reflected on the British economy and along with the fact that socialist intervention was at the cost of productivity, the interventionist State was exposed to a wide-ranging critique. It was characterized as overly bureaucratic, with social welfare sapping the moral fibre thus creating a 'Nanny State.' It came to be seen as a threat to individual rights and liberties and was termed as 'creeping totalitarianism.'

Hence what was proposed famously was a call to 'roll back the State', a total reversal of doctrine of State intervention. This change of discourse was validated on grounds of the fall of Socialist State (in USSR), as also a shift in the political discourse towards what is called the 'New Right'. Hence the proposal came to curb State intervention, reduce welfare, restore State enterprises to private economy

(Privatisation), break the trend to collectivism, restrict the power of unions and restore competitive individualism, all based on the doctrine of free market liberalism.

This became a dominant trend of the British State in 1980's under Thatcherism and in other capitalist states like U.S.A. It represented a move to restore the ideals of the classical liberal state but under advanced 20th century capitalist conditions. This whole ideology got tied to the foreign policy of capitalist states towards the Third World and also got reflected in the policy pronouncements of multilateral financial institutions like the World Bank that started stressing on a lesser role of the State. This was the effort to create the Neo-liberal State worldwide in its 19^{th} century version.

This whole scheme, as Hall observes, brought the question of the role of the State once again into the focal point of contention in liberal democracies. Such a viewpoint held reflections in authors like Nozick who stated that, "Our main conclusion about the State is that a minimal State limited to the narrow function of protection against force, theft etc. is justified; that the minimal State is inspiring as well as right."[17]

The whole continuum of theorisation on the role of the State stretches from liberalist, pluralist, and reformist to Marxist positions. It is shown that all subscribe to a particular form of State as well as a specific role for the State in relation to the economy. The above discussion also highlights that there are different models of role of state worldwide. Also that even though the structural characteristics of different countries could be same yet the role that the state performs there could be different. At the level of theory, the liberal ideology offers different models of role of state from the classical liberalist model to the liberal socialist model. However, the World Bank follows a particular model of role of the state and builds its conception as well as policies on this for the Third World. In order to understand the basis of the conception of the role of the State advocated by the World Bank, it is essential to ascertain what different roles the State performs under different arrangements. The argument can be put conversely, as to what form of State emerges when a specific framework of action is entailed with regard to economy. Could it be different from the one that is existing? What implications do, a particular role of State as offered by the World Bank have for Third World states that are dependent on aid? The answers will enfold themselves in the course of the work. For now it is to be noted that the Bank's model is that of a free market system in which the state has to play a specific role as defined by the Bank.

II. SEPARATING POLITICS FROM ECONOMICS

It can be stated, validly, that the State performs a particular role with regard to the economy and the form of State and the type of political setup that exists determine this role. Linked to the view of the state's intervention in the economy is the consensual view that the matters of economic development that are crucial for a State should be sanitised of any politics or political coloring. This argument could then be extended to multilateral financial institutions like the World Bank that provide aid to Third World states for economic development. The dominant view that exists calls upon such lending agencies to delink any politics in their programmes and policies.

The World Bank's Articles of Agreement formally rule out interference in the political affairs of the recipient countries. Moreover it is also stated that its interaction, advise, policies with regard to aid and grants are all based on the principle of economics and economic considerations only.

But is such a rigid separation of politics from economics possible or, to put it in a different way is it desirable? In addressing this, the aim is to provide another theoretical foundation to examine the World Bank's view on the role of the State. The academic discipline usually places a high wall between economics and politics though in actuality these breach into each other's territory beneath the foundation.[18] Classical economic analysis builds the case for the separation of politics from economics in order to sanitise the field that affects the population, of any kind of ideological and political coloring. On the other hand, there is another school that calls for the primacy of politics in economic development. The former school has a tendency to perpetuate the rigid conceptual separation of the economic and the political, not realising that such a separation is a theoretical as well as a practical problem. Moreover as Ellens Meikson Wood states, this has served capitalist ideology so well ever since the classical political economists discovered the economy in the abstract and began emptying capitalism, in the form of free market choice theory, of its essential political and social content.[19]

The grand old man of bourgeoisie social sciences, Weber, insisted on a purely economic definition of capitalism, without reference to extraneous social factors, evacuating the social and political meaning of capitalist economic order in deliberate opposition to Marx. The relation between politics and economics became very opaque in the age of liberalism. The control of political power was in the hands of the economically powerful and it was so tight that as Neuman states, "one could easily gain the impression that the State had withdrawn and reduced its function to a minimum."[20] In this way economic development was sought to be sanitised of politics giving the liberal capital framework immense benefits to draw from this separation. However a decisive critique of this separation emerged in the works of Marx.

The other viewpoint was postulated by Marxian theory that politics is essentially a function of economics. Economic processes are channelled and influenced by acts of politics in the sense that economic power is an important part of political relationship. The economic, in turn, affects political processes in the sense that economic power gets translated into political power. Central to Marxian theory, Leftwich states, was the fundamental postulate that "the economic structure of the society constituted the basis or substructure from which arises the political and legal superstructure or in other words, the mode of production of material life, conditions the social, political and intellectual life processes in general."[21]

Importantly it is politics that decides the nature and course of economic development. Politics involves all activities of conflict, cooperation and negation involved in the use, production, distribution of resources whether economic or others, at local, national or international level or whether in private or public domains. All economic development, as Leftwich argues, is inescapably political. It is no wonder that Marx states forcefully that the distinction between economics and politics would collapse in a classless free democracy.

In the light of the above, we seek to put forward that there can be no rigid separation of politics from economics. Politics is there in the economics of policy formulation and programmes for it is the end result of a process of struggle and compromises among states, bilaterally or multilaterally in institutions like the World Bank, whose interests in the matter are for the most part economically determined and politically motivated. As Leftwich asserts, it is politics and the character of the state that will give rise to economic development. It is politics that will determine the kind and quality of governance. It is politics again, that will inform the processes of economic development as well as the state's ability and capacity to do so. As Neuman states, the domination of politics over economics is clear. Today in the 20th century, political power has at command, all instruments of economic power.

The primacy of politics over economics was always a fact, which was at times glossed over, at times openly recognized. Financial institutions like the Bank are forbidden by their Articles of Agreement to enter into the domain of 'politics' while deciding economic issues of the Third World. On the one hand, the Bank claims non-interference in the member State's internal affairs, (Structure of State itself) while on the other it has pronounced policy prescriptions, conditionalities that shows its presence in the political. One such example is its shift towards 'good governance' as essential in the State desiring aid. Though World Bank claims to have a technicist notion of governance as its reference point, yet it is an accepted fact that governance is an issue of 'politics'. How to resolve this dilemma due to the Bank's position? Does emphasis on good governance signify a departure from the traditional emphasis of the Bank on 'economics' towards a more active 'politics'? Its European counterpart namely the European Bank for Reconstruction and Development (EBRD) established in 1991 to help restructure former Soviet Union economies and East European states has combined explicit economic and political objectives in its charter itself, unlike the World Bank.

The next section would attempt at analyzing the Bank's paradigmatic shift towards 'governance' from the theoretical standpoint of separation of politics from economics laid before. The Bank defines 'governance' as the exercise of political power to manage a nation's affairs. The Bank claims that its Articles of Agreement prohibit it from interfering in the political affairs of member states. It asserts that its notion of governance is a technicist one and not political. In course of time the Bank elaborated its conception of governance into that of 'good governance', that was the manner in which power is exercised in the management of a country's economic and social resources. The next section will probe the 'apolitical' face of the Bank on the issue of governance.

III. *GOOD GOVERNANCE: ECONOMICS OR POLITICS?*

International financial institutions like the World Bank and the IMF have been associated with the project of development in the Third World. This project has the sanction of the Western developed world that provides the bulk of loans to World Bank for lending purposes. As the Bank notes itself, in its earlier existence it addressed development primarily as a technocratic challenge. The implicit model was that good advisers and technical experts would design good policies and good projects, which good governments with adequate resources would then implement for the benefit of the society.[22]

However failure and non realisation of the above made the western developed states and the World Bank attribute the causes of such failure, to the prevailing policies and structures of governance in Third World states. The major flaw, according to them, was the degree of state intervention in the society and economic affairs and the curtailment of free markets and liberalised trade regimes. All this was called as bad governance. The focus thus shifted towards ensuring good and accountable governance in the Third World. The President of the Bank in the present era, Mr. Wolfenson stated that, "Irrespective of the political systems, public decisions must be brought out into public scrutiny. Not simply to please the market but to build the broad social consensus without which, even the best conceived economic strategies will fail."

The Bank shifted its focus to the aspect of 'good governance' as a necessary feature in the Third World States for economic and social development. The first definition that the Bank gave was as Susan George states," Governance is the manner in which power is exercised in the management of a country's economic and social resources for development."[23] Good governance on this account came to be associated with sound development management. The Bank's report on Africa of 1989 underlies the litany of Africa's development problems as a crisis of governance. By equating it with sound development management, the Bank essentially reduced a political concept 'governance' into a limited, apolitical and technicist notion of governance. This whole notion's 'apoliticality' was reflected in its concern for a reduced role of the state in Third World economic matters. As S. Guhan points out, the World Bank, given its visibility, resources, prestige and leverage, is in course of time, capable of distorting the word 'governance' to make it acquire the kind of ideology - laden connotation which it has infected into it. If this goes unnoticed, debate on governance will be marginalised by being continued on the narrow and warped terms set for it by the Bank. This has already happened with 'economic reforms' and 'structural adjustment programme', two other mantras in the World Bank vocabulary.

The issue at hand is, whether the Bank is maintaining the parameters of distinction between economic and politics while dealing with Third World development. Is economic development the only concern for the Bank? Does it have a political connotation in demanding good governance in Third World States? This is ironic as Susan George states validly, the Bank itself respects none of the features of good governance. To give an example, while transparency is an important item for the Bank in Third World states, it itself is not transparent. It is very difficult to elicit information and officials are not accountable for the displacement of hundreds of communities due to its huge projects.

Barber Conable, President during 1986-1991 stated clearly that donors will no longer support State structures that are inefficient and irresponsive to necessary reforms. The Bank in its document of 1994 stated bad governance to be:

a. Failure to separate public from private.

b. Excessively regulating mechanisms that impede free play of market.

c. Misallocation of resources to priorities not consistent with development.

d. Non-transparent decision making.

This policy shift did have a source of origin. The new shift that has come in the West as well as the World Bank in their policy pronouncements towards the Third World according to Leftwich, represents the political ascendance of neo-conservatism in western politics, economics and public policy from late 1970's onwards, the glaring example being the U.S.A. and the U.K. that sought to redefine the rôle of the state and market with regard to the economy.

However, this shift of focus on governance and reducing it to a technicist emphasis has been critiqued by many within and from outside the Bank. Edward Mason and Robert Asher historians of the World Bank cautioned the institution nearly 25 years ago from pursuing ideology - based conditionalities. According to them, it is not appropriate for an external financial agency to substitute its views on the nature of development on to a borrowing state by trying to replace the political processes by means of which social preferences get defined. Despite the formally apolitical stance of World Bank on the issue of governance, there is little doubt, as Leftwich notes, that underlying this vision of good governance is a western model ringing with Weberian echoes, with its emphasis on free markets, individualism and democracy. By redefining the nature and content of governance the World Bank has firstly, stepped out of economics into the sphere of politics, thereby negating its basic principles. Secondly, redefining governance is essentially towards redefining the rôle of state with regard to the economy and polity.

World Bank report on the Rethinking and Recasting of the State in a changing World (1997) sets the limits of the whole framework of the State versus market debate and seeks to redefine the role of state in accordance with its concept of good governance. The next issue to be addressed is the state versus market debate in the context of path of economic development. This would complete the theoretical exercise for evaluating the Bank's conception and policies with regard to the role of the state. The key point is that the Bank itself represents this debate along with a solution towards a specific purpose.

SECTION – B

I. *STATE VERSUS MARKET: ROUTE TO DEVELOPMENT*

Economic development since time immemorial has been a cherished goal for individuals and states. The state on assuming the responsibility of bringing social change and development became all pervasive in the society and in deciding what is good and how to achieve it. But the nature and extent of state intervention in society and economy depended upon the type of political structure prevailing, as stated earlier.

The process of state assuming the directive role in the path of economic development has been a complex one. As Reuschemeyer and Evans state, "the state through the public enterprise becomes an active participant in production and market exchange and supersedes the way in which the 'market' meshes knowledge, incentives and economic power."[24] The state thus assumed upon itself the historical role of supplementing private capital and became an agent of the accumulation of capital.

This is true of the states in the Third World like India where it became the engine of accumulation and distribution. Creation of state enterprises and intervention became a central part of state initiative to lead the project of economic development. Sectors that demanded huge investments and longer payback periods were not attractive for private initiative; so the state became the leader. It is to agree with Miliband who stated that men more than ever before now lived in the shadow of the state. What they want to achieve, individually or in groups, now mainly depended on the state's function and support.

A very important factor essential for effective state intervention for economic development as Peter Evans points out is autonomy.[25] This is significant for the present exercise too as we attempt to identify the nature of forces (internal and external) that are making an impact on, influencing and controlling the autonomy of state in the Third World especially India. However this would be dealt with later. For the present it is to be stated that autonomy is essential for the State to augment the resources of the economy so that it could diminish the reliance on private capital. This would strengthen the capacity of the state to lead the task of economic transformation and not leave it to other 'forces.'

Empirically the state in the post-colonial period in the Third World became the developmental State, the main provider, facilitator and regulator of capital accumulation and the social agency for distribution. This framework of State led development, did allow space for private initiatives though in few non-core sectors but under state supervision. The framework adopted was state-led development and the mechanism towards this end were planning, public sector enterprises, public policy all reflecting the state apparatus of intervention towards economic development and social equality. The paradigm discussed here did provide space for market (private initiative) to grow and contribute. However it was within the framework of public interest defined by the State itself. It is to be noted here that the project of state-led development was not exclusive of private initiative.

However the developments taking place at the other end of the world i.e. the developed capitalist world changed the nature of debate with regard to economic development in the Third World. There came the debate of state versus markets in a new way, between those who favoured strong intervention and those who favoured less or no intervention of the state and a free play of market forces. Miliband terms this as a genuine quarrel between markets and states, for, the nature and structure of intervention in the Third World became crucial for the maintenance and survival of capitalism in the developed world.[26]

Modernization theory that was practiced in the west was offered and imposed on the Third World States as the best suited model for development. To quote Marx "the country that is more developed shows to the less developed the image of its own future."[27] Moreover the mechanism for this historic project was also defined for the Third World. This was the free market approach, whose foundations were liberalism, private property and initiative and whose end became a minimal state intervention. Authors like Hayek eulogised the market by stating that:

"No system can provide a mechanism of collective choice as dynamic, innovative and responsive as the operation of free market. Market system is the basis for a genuinely free order, for economic freedom is the essential prerequisite for political freedom."[28]

"The world got divided between", as Schotter states, "those who saw free markets as the cause of all problems and those (West) who saw it as the cure of all problems caused by centralized development led by State". Schotter goes on to trace the intellectual roots of free market approach and locates it in Hayek's advocating of individual action as agent of change, Locke's personification of the second meaning to look towards the individual as the ultimate solution and chiefly to the work of Adam Smith who advocated individual actions (invisible hand) leading to development.[29]

This article of faith became the foundation for the modern belief in Laissez faire economics with a strong emphasis on free markets and minimal state intervention. "Markets thus", as C.T. Kurien states, "came to occupy a central position in both economic theory and policy in the West. Moreover the accent of market is becoming very pronounced in the Third World due to the influence of the western developed states and financial institutions like the World Bank."[30]

The contemporary debate of state versus markets was visualized by Karl Polanyi who in 1940's wrote The Great Transformation (Boston: 1957), characterized market economy as a self regulating system directed by prices having no need for an intervention by any outside' agency such as the state. The phenomenon of free-market approach therefore got linked with the context of transformation of economies within the conceptual framework that is called development economics. This thus set the terms of reference of the state-market debate.

The stress on free markets got reflected in the Third World was the dominant position of the West from the time the former attained independence. The most forceful thrust and avocation of this could be seen in the Reagan and Thatcher era in U.S.A. and U.K. respectively. As these dominated the World Bank and other institutions, an extension of the official line was more or less logical. The stress on free markets in Third World States became an official policy of the U.S.A. and the U.K. during the Reagan and Thatcher era. Both were averse to government interference in free markets and private initiatives. It was the era of Reaganomics and Thatcherism that settled the debate between the two choices of path towards development. Reagan in particular was totally against protectionism so as to provide greater opportunities to American business abroad. To quote Reagan "Countries that impose barriers to our exports and unfairly subsidize their industries are a threat to American interests".[31] This thus became the policy framework for ODA and international aid agencies like the World Bank where the U.S. had a major stake.

Thatcherism in Britain reinforced the free market doctrine for development by emphasizing a shift away from the 'Statism' that came due to the socialist policies of labour government. Capitalism was familiar and creative for Thatcher. So the need was to promote, strengthen and enforce the strategy that would strengthen capitalism. This was the free market approach. Like Reagan, Thatcher was against placing of the World Bank and the IMF under United Nation's supervision as desired by states like India. She stated that "Britain was not ready to put her deposits in a bank which was totally run by those on overdraft." She supported the conditional aid policy of the World Bank-IMF and the Cancun summit that secured the autonomy of these institutions from the UN was in fact a victory constructed by Thatcher. Her avowed belief was that the problems of the Third World could be solved by liberating enterprise from state, promoting free trade and defeating socialism in all its forms anywhere.[32]

The purpose of reflection upon Reaganomics and Thatcherism was to show the similarity between the thought and practice of two developed capitalist states in their approach towards the nature of economy at home and abroad. As these two had the major share of votes and influence in the World Bank and the IMF the official policies of the latter with regard to economic development in the Third World and the role of the state showed the influence of the west. All these reflected the emergence of the neo-liberal view of state and economy. As Leftwich argues, it is not only an economic theory but also has strong political dimensions that are both normative and functional in relation to politics and the state. While normativism celebrates individual freedom, rights and liberties, the functional strand links its concern with free markets and economic development with democracy. Neo-liberals assume that democratic politics is not only desirable but also necessary for a thriving free market economy and vice-versa and together would be the ideal engine for development, a major concern in the Third World.

This aspect of the dominant theory and ideology of political economy in the west became the reference in shaping and structuring overseas aid and development policy that found reflections in the policies of financial institutions like the World

Bank and the IMF. The collapse of Soviet Union, a symbol of an alternative arrangement of state and economy, strengthened the view that political liberalisation is essential in the form of democracy and free market for economic development in the Third World. Hence the newfound concern with democratization of Third World states. This confident linkage became the subtle foundation of policy pronouncements of the World Bank.

It would be relevant as an empirical example to quote Rakesh Gupta's description of post-soviet Russian state within the framework dealt till now. "The Russian state", according to him, "is pursuing an economic package that ties the values of individual political freedom, rights and liberties, freedom of choice and responsibility. This is a neo-conservative prescription that takes one back to the 19th century version of capitalism and democracy wherein the state existed as an antimony to the market. The resultant situation is that EBRD loans to Russian State has the economic and political conditionality of promoting multiparty democracy, pluralism and market economy. Rights guaranteed in the new constitution are both a reaction to the negative past and simultaneously a preparation for the operation of the practices of the capitalist market society in its predatory form."[33]

The illustration clearly signifies the shift towards the market approach to development as well as, reflecting upon the nature of forces and the mediums of extension of this approach employed by the west towards the end of free market economy. Before detailing the policy prescription of the World Bank vis-a-vis the market approach and the consequences of application of such policies in the Third World (Central Asia), it is essential to introduce a critique to this free market approach sought to be imposed on the Third World states. The critique is with regard to the contradiction between theory and practice.

Firstly, at the level of ideology (theory), the end of cold war has made it imperative for the West to control the Third World states that are a basic factor in their foreign policy and the instruments for this is to push them into the neo-conservative model of economic development to fulfill their own ideological, strategic and economic objectives. Secondly, at another ideological level this shift emanates from the viewpoint that there is a triumph of the western model of democracy and development and that this needs to be planted worldwide in order to arrive at the Fukuyama's teleological terminus of history, that is the universalisation of western, liberal democratic value based on individualism and free markets as the final form of human governance. Thirdly, at the level of practice, there is a striking contradiction between what the west professes for the Third World and what it practices. Though the official policy is favouring free markets worldwide, yet its domestic policy contradicts its external policy. Eminent historian Paul Bairoch stated that "it is difficult to find another case where the facts so contradict a dominant theory as the doctrine that free markets were the engine of growth, or for that matter, that great powers adhered to them, except for temporary advantage."[34]

As Chomsky states "from its origins the US has been the mother country and the bastion of modern protectionism".[35] Chomsky in his searching critique of the contradiction in the policy of the U.S. and the U.K. highlights that the Reagan administration was the extreme form of Statism. Britain followed a strong protectionist policy for 150 years that gave it tremendous advantage before turning to free market.

To provide statistics, the UNDP report of 1992 estimates that protectionist and anti free market measures of the developed world has deprived and cost the Third World states 1/2 trillion dollars annually, 12 times the total aid given to them. The point that is being made here is that when one turns to the advanced capitalist states of the West, it is impossible not to note a decided artificiality to the notion of free market Laissez faire state. This is due to the fact that states in the West have performed the structural and regulatory tasks that were essential for the economy to function. The Third World states with their weak economies are anywhere, but near the level playing field. So these policy prescriptions need to be evaluated critically.

Lastly, the vested interest of promotion of capitalism and the need for new markets seems to be the drive behind the World Bank's zeal and emphasis on free markets. This whole process has its basis in the western capitalist doctrine that wants to dominate the world. These processes according to Marx and Engels were significantly central to the globalization of capital. They stated:

> "The need for a constantly expanding market for its products chases the bourgeoisie over the surface of the globe. It must nestle everywhere. settle every where, establish linkages every where".[36]

If the earlier instrument for this was colonialism the instrument in the postcolonial period is the 'free market ideology'. As Hippler notes, when command or state led economies turn to the free market, they generate a huge demand for the products of western developed states like America. Theories of free market and comparative advantage, Hayter states, were the ideological tool and policies of expansion of the West strengthened by the pronouncements of the classical economists.

These are the various issues central to the state-market debate with regard to economic development. In the present era, the shift towards the free market approach has been forcefully and successfully brought about by financial institutions like the WORLD BANK, IMF. The old choice between state and market is barren. Both in their various ways have been driven by the imperatives of accumulation, in one case imposed by the demand of competition and profit maximization internal to the system and in the other, by the requirements of accelerated industrial and economic development.

The choice lies somewhere in between, for the history of spread of market shows that it was not the result of its own dynamics but brought about by deliberate state intervention. Viewed as a facilitator of exchange, the market is a remarkable social mechanism and a visible symbol of human interdependence. In the realm of economy its significance as Smith and Marx recognized, lies in the fact that it facilitates division of labor and greater productivity. If subjected to wider social considerations by a superior agency like the state, it would work to the advantage of all.

On the other hand the role of state in economic management is undergoing a threefold challenge, from above, below and laterally. As Keating observes, from above, internationalization of the economy and mobility of finance capital have reduced the ability of the state to pursue autonomous economic policies. From below, the state is challenged by local and regional forces which with their spatially based logic of community growth are divorced and affected by the MNC led growth strategy through free market, uncontrolled by the state. Laterally, the role of state in economic management is challenged by the revived faith in markets and privatization as governments not only of the right but also of the social democratic left have abandoned their belief in economic planning, deregulated and privatized and sought to compete in the global division of labor.[37]

State authority and capacity in the Third World are coming into question today due to the interplay of forces mentioned above. The state has to revitalize and reinvigorate its role in the Third World and also accommodate the market. If it is the question of allocation and choice then the type of good to be allocated by free market and by a non-market mechanism (state) could be different and complementary. According to Chomsky, there has rarely been a time in history when that choice carried such dramatic human consequences.

The need is that we need not be doctrinaire in our advocacy of free markets as solution to all our social and economic problems. When appropriate, the market should be used but when other non-market institutions seem more reasonable or when markets fail, the state could be the means to replace the market or cure market failures. For example, in pre-colonial India, "...market places were themselves often created through the specific political act of a local ruler, a regional power or the surparegional authority...". The colonial state in order to take care of the market failures, privatized part of the coercive powers that it monopolized.[38]

Having addressed the issue of state-market approach to development in which the reduction of the former and enlargement of the latter is central to the Bank's conception of the role of the state, the next section of this chapter would provide a brief analysis of a case wherein financial institutions like the IMF-World Bank introduced, facilitated and planted the free market approach in societies earlier under the state intervention paradigm. These are the Central Asian states, formerly a part of Soviet Union. With the issues discussed till now as the criteria of reference, the effort would be to look at the consequences of transition to a free market economy, the role of financial institutions like the WORLD BANK-IMF, the overall context being the decline of socialism and the advancement of free market economy.

II. THE CENTRAL ASIAN STATES - LOGICS OF FREE MARKET

The five post-Soviet states of Central Asia namely Kazakhstan, Kyrgyzsthan, Uzbekistan, Turkmenistan and Tajikistan confront the challenge of carrying out four separate, but related, transitions. The first is the transition from being a part of a highly interdependent 'command' economy to a national independent economy. The second is to emerge as a sovereign nation-state from the status of a semi-colony of an empire. The third is the transition towards building a society based on freedom and democracy. Lastly, a transition from a centrally planned economy to a market economy.

These newly independent states are among the least developed former Soviet republics and the breaking away from Russian dependence has hardened the path of transition. However the western world and financial institutions like the WORLD BANK-IMF have stepped in to accelerate and complete this transition. The operating framework here, is the shift towards market economy in the development debate underlined earlier. Shafiqul Islam states that the five economies are typically landlocked, backward, sitting on massive reserves of oil, gas, gold and other precious natural resources. However there is a great diversity that characterizes the five states in terms of stage of development, economic structure and resource endowment.[39] While Kazakhstan leads the region with a per capita income comparable to an upper echelon country of the Third World, on the other hand, by contrast Tajikistan is the region's poorest country with a per capita income less than half of Kazakhstan. Uzbekistan is the most populous and politically dominant state in the region while Turkmenistan is the region's second richest country with a predominantly agriculture based economy contributing more than half of national output. Kyrgyzsthan and Kazakhstan are the region's more industrialised economies and also the least agrarian ones.

The point being made here is that as Rakesh Gupta observes, "the five states are at different levels of national resource base, unequal capacities to exploit these resources, different demographic composition, different patterns of crop production, infrastructure facilities combined with differences in speed towards privatization."[40] Inspite of such diversity, a striking similarity that runs across all, is the objective towards economic development through a transition to the free market system. Another is the interest, objective and participation of the Western world directly and through the WORLD BANK-IMF in advocating, planting and supporting this transition.

All the five states show a similarity of approach in seeking foreign direct investment (FDI) and trading partners outside the former Soviet Union. While the philosophy of how to build a market economy diverges greatly, the desire for integrating into the world economy is strong throughout the region. The western world and financial institutions have targeted the 'desire' in different ways so as to shape the 'philosophy'. This has far-reaching consequences for the region, as well as for other developing states of the Third World.

Kyrgyzsthan has gone further on liberalization and less on privatization; Uzbekistan while hesitating on the liberalization front has gone far ahead in privatizing. For example full privatization of housing has been undertaken in Uzbekistan. By their membership in the World Bank and the IMF, the states are seeking to fulfill their 'desire' by establishing working relations with western and Asian economies. This is also aimed at reducing the dependence on the Russian economy. The West has grabbed the opportunity and the U.S.A. and major European countries are on their way to becoming the region's major trading partners and investors. They have alongwith the World Bank and the IMF sought to perform the role of mentors with an 'attractive development model'.

The World Bank and the IMF began to supply the much needed foreign exchange alongwith their policy prescriptions and conditionalities to the Central Asian States for facilitating a 'healthy' transition to a market economy. The economic review series on the Central Asian States, started in 1992, provides the information about the initiative of the western states and financial institutions in the region towards ensuring rapid economic development within the framework of market philosophy. Following is a brief overview of state-wise strategy.

I. Kazakhstan initiated an ambitious program of privatizing and liberalization to reduce "state intervention" and install a legal and institutional framework for a market economy. A three-tier privatization programme has been put in by the IMF on a case by case basis involving 'international tenders' for private participation. This has eliminated the 'state needs' system which had replaced the state order' system all signifying an end to the state's role and shift towards market. President Nazarbaev is an ardent supporter of this programme as well as of the West and financial institutions towards the objective of globalizing Kazakhstan.

II. Change in Uzbekistan is gradual as 80% of labor is employed by the public sector. The institutional framework of the Soviet era including a national economic planning agency and state procurement remains largely operational as state ownership of production and investment has been maintained. Though a gradual economic reform programme has been initiated, the World Bank and the IMF insist that the existing structure has to be changed totally and they would support the costs. President Karimov's principle of the 'Uzbek road to capitalism' that includes opposition to the Bank-IMF's dominance in policies and aims at maintaining the state as the main actor along with a strong social policy to protect the vulnerable, a stages approach to market economy involving deideologization of the economy has been to the displeasure of the two financial institutions.

III. Tajikistan is at the centre of a civil unrest that impinges on the state's effort at reforms. State monopoly over exports, state led and state dominated system for procurement, distribution and production are in place. It has a good social safety net that guarantees a minimum standard of living to all, even though Tajikistan has the lowest per capita income in the region. Civil unrest continues to obstruct the program of institution building and removing 'state monopoly' towards ensuring a free market economy.

IV. Turkmenistan under President Niyazov has followed an economic policy of 'open doors'. This has greatly facilitated the western states as the foreign investments for exploiting the natural resources have been given a free way. The World Bank and the IMF prevailed upon Turkmenistan to move towards a complete market economy and withdraw the earlier strategy of creating two parallel economies: one the natural resource sector integrated with the world markets through the state and the other being the rest of economy under state control itself. Here the efforts of the Bank and the IMF has finally shaped the 'philosophy' by moulding the 'desire.'

V. Kyrgyzsthan, though caught with the greater ambition-capacity gap as Shafiqul Islam states, yet launched the most ambitious program of market reforms with the assistance of the financial institutions. It was the first Central Asian State to introduce a new currency thus exiting the Russian ruble zone, as well as dependence on Russia. This helped it in obtaining the IMF seal of approval facilitating huge loans under IMF's Systemic Transformation Facility (STF). It also got approval of loans from IDA, Japan and other Western states. In brief, the west and financial institutions awarded the country for its move to market economy from a centrally planned one.

It is relevant to quote Catherine Caufield who states that, in 1993, the WORLD BANK with reference to the Central Asian States, in its board meeting agreed to waive the 'negative pledge' clause, which is the Bank's higher claim on a state's assets in case of default, for 5 years. As one executive director remarked, "this is for any country in transition from communism (state) to a market economy."[41]

Through policies like these and soft conditional loans, the World Bank and the IMF have enforced the functioning of a minimal states, similar to the Laissez Faire model outlined at the beginning. In contrast to the common desire of the Central Asian States to build a 'socially oriented market economy' the World Bank, the IMF and western developed states have sought to expunge socialism from the desire. It is essential to have an open and receptive view towards such phenomena. If the choice is to go for market economy then it should emanate from the State itself alongwith the form and extent of such an economy and not planted by external actors.

The areas of Central Asia that have attracted the West and the financial institutions are endowed energy, oil and gas and natural resources. (America is the leader in this race). The western states have entered these areas through the operation of private investment and multinational corporations. The purpose is to break the dependence of these states on Russian economy and philosophy. The Central Asian States have responded in ways different from other Third World States.

Firstly, priority has been given to attract private investment rather than official aid. Secondly, they want good relations with the financial institutions for getting short term and long term loans, project and technical finance especially from the World Bank.Thirdly, as the World Bank observes, the Central Asian economy needs to become more closed to other former Soviet States and open to the rest of the world, in order to cut the dependence on Russia. The Central Asian States for now have kept a balance between the two, but are tilting towards the West. Fourthly, the Central Asian States have developed a two-way strategy for managing the economic relations. With regard to former Soviet republics, the strategy is to promote bilateral ties to evolve an operational CIS entity. On the other hand, with regard to the west, the policy is 'open door for all, but no big brothers allowed'.

Therefore economics is the guiding philosophy of the Central Asian States foreign policy thus opening the door for active Western and financial institutions intervention. As Rakesh Gupta observes, the West's interests apart from its rhetoric of the teleos of market democracy is actually extended accumulation. This is true as international finance is on its way to benefit from the transition of Central Asian

States. European Union, IMF, World Bank, American and Japanese companies have entered these regions and gained a foothold. However neither foreign technology nor foreign capital has come to this region. Influx is in the area of natural resources, oil and gas for the benefit of the international market. The real purpose is to delink the Central Asian States economically from the Russian zone and link it up with the western economic interests.

Significantly, there is no sign of independent capitalist development or an indigenous shift to market system in Central Asian states. The operational doctrine is that of the Bank-IMF that have planted institutional structures through their policy pronouncements. A clear picture of the consequences of this great transition is yet to emerge though Michel Chossudovsky states that this strategy of the WORLD BANK-IMF is on one hand leading to the globalization of poverty as market benefits the privileged sections only and on the other it deprives the vulnerable by removing that one institution which serves as an umbrella for hard times, i.e. the state.[42]

The effort in this chapter has been to identity the theoretical grounds and operational principles on which the World Bank has put forward a particular conception of the role of the state. Though a detailed description would be undertaken in the third chapter, for the present, it could be stated that the World Bank's conception is that of a minimal state with a strong emphasis on free market economy, something similar to the Laissez Faire State. The case reference of the Central Asian States dealt above is reflective of the Bank's approach to evolve a Laissez Faire model in these emerging states so that its policy of a free market system could be realised. Its sole concern is Third World development and the emphasis being on the aspect of good governance for ensuring economic development in the Third World. The next chapter would therefore deal with the conception of state in the Third World societies and their position in economic development. Reference would be to the Indian State that exemplified a state led and state directed economic development strategy though now moving towards a market determination system under World Bank-IMF supervision. Such an examination therefore would establish the role of the State in the Third World in the project of economic development as in the case of India since independence. Also the opportunity to examine the change in discourse towards market economy and globalization would be there as the Indian State since 1991 has moved towards this under World Bank-IMF guidance.

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CHAPTER - II

ROLE OF STATE IN THIRD WORLD

CONCEPTION AND APPLICATION

The first chapter laid out the parameters of examining World Bank's conception of the role of state, the context being the economic development of the Third World. Various conceptions of the role of state in West sought to put forward the view that role of state differs when the form of state differs. The separation of politics from economics (a desired criteria in issues of economic development of a country) showed the difference in practice from theory, in the workings of institutions like the Bank-IMF. Lastly, the state versus market debate that has revisited the development community worldwide was addressed to relate the policies as well as philosophy of the West to the context of Third World economic development.

State in Western societies had performed a different role towards economic development by laying the foundation for it; the market built itself on this space. As was reflected in the discussion of laissez faire state, most of the space in the economy in West was left for the market, though state laid its foundations and remained to address any aberrations. Since 1970's, this debate of the West has influenced and shaped the working principles of institutions like the World Bank and the IMF that were since their inception dominated by Western developed states. The shift in their focus naturally went towards a free market approach in Third World States and reducing the role of state to a minimum. The Bank came to represent this debate and in its dealing with Third World States it started stressing on giving greater freedom to 'market forces' than was existing.

Bank's violation of the line between politics and economics was reflected in this. (The next chapter will explicate more on this).

The major emphasis of the Bank as well as the main concern of the present study is economic development in the Third World. It becomes relevant now to examine the role of state in Third World in both theory and practice. This would be to answer whether state here had a different role than in West? Also, whether the argument that a minimal role of state(as stated by the Bank) is essential for economic development, holds true in Third World context. For this, an analysis of the development strategy, the role of state in it and the results of such effort would be undertaken.

At the outset, it can be stated that if there is one feature that characterizes as well as distinguishes between the state in the West and in the Third World, then it is 'difference'. This 'difference' lies in the origins, historical context, socio-cultural specificities that are so well recognized that they need not be stated. Also, the difference lies in the fact that, with regard to the conception and the role of state, various thoughts prevail though all having a strong and similar emphasis. The first section therefore would look at these different thoughts on the role of state in Third World and in the process of economic development.

I. THIRD WORLD DEVELOPMENT: CONCEPTIONS ON STATE

A. THE WESTERN VIEW

The historical colonialist of Third World conceptualized the path of development and the role of the state in it by grounding it in its own lived experience and approach. For the West, economic development in Third World was to follow the path traversed by West. After all, who wouldn't desire modernization in forms of industrialization, scientific and technological advancement, democracy etc? Such thinking led the Western developmentalists to assume that the Third World states would want to develop in the same manner as developed states did and by using the same approach and method. Therefore the experience of the developed states would be crucially important for the newly independent Third World states to emulate, adopt and practice in order to achieve the desired goal i.e. development.[1]'

The colonial occupation of the Third World by the West had been instrumental in showing that the colonial state itself, as in India, had indigenous roots and that the colonial experience was not alien. As Prasannan states, "the East India Company state incorporated the merchants who were excluded from political power within the indigenous order-and gave them political voice. In turn, the merchants became crucial supporters of the company state. Colonialism in South Asia had very important indigenous origins."[2] Thus, the advocation of the need to emulate the Western experience is to reinvent this colonialism for the Western interests in the present era have indigenous linkages in the Third World. It is essential to look at the West's experience of development.

The experience of the developed states was a linear path of development that it sought to apply for the Third World also. Theory fell on line as nineteenth century theories of evolution according to Chilcote, asserted that the Western world had traversed a path through successive stages of development. Implied in the West's view of 'progress' was the belief that it could provide its model for Third World and less developed areas and civilize them by spreading Western values and approaches, thus fully undertaking the 'white man's burden'.

Development theory for Third World then got built up on the assumption that the European or the American way of economy and society is Third World's destiny. Based on this ethno-centric bias, the 'modernization thesis' was put forward by the West, for application in the Third World. At the heart of this approach was the belief that it was an "ideal type" with definite variables which could be put into practice to achieve near approximation.[3]

Modernization thesis of the West put forward the view that the Third World states, if they could update their 'backward' agrarian sector and 'stimulate' their modern industrial sector, would very soon arrive at capitalism (and therefore development) via the same stages through which the Western capitalist countries had passed. 'Modernization' thus expressed the extension of capitalism in the Third World, something that went against the basic founding objectives of most of the Third World states. As state in the Third World was not capable due to under capacity and lack of institutional base, it was assumed and put into practice, that massive financial and technical assistance along with the 'knowledge and experience' of the West would transform these backward societies into modern industrial ones. This paved the way for the creation as well as operation of multilateral aid through the World Bank and the IMF alongwith bilateral aid.

"Inherent in the modernization theory" as Chilcote states, "was the premise that change continuously and necessarily occurs through a sequence of stages and towards certain qualities characteristic of the developed states of Europe and America."[4] On such lines came the influential theory of American economic historian Rostow who in his Stages of Economic Growth: A Non-Communist Manifesto (1960) outlined five stages of development namely, traditional society, precondition for take off, take off, drive towards modernity and age of high mass consumption.[5] Authors like Organski on line enumerated four stages of development: primitive national unification, industrialization, national welfare and abundance.[6] Both these approaches towards development in the Third World assumed that the march would be from a stage of underdevelopment to one of capitalist democracy, abundance and mass consumption.

It was left to Apter, who in his, 'The Politics of Modernization (1965) distinguished between development and modernization (though Western view equates it mostly) and stated the latter to be a particular case of the former. He identified two models, "secular libertarian" and "sacred - collectivity". The former contained bargaining, pluralism, leadership as exemplified by the U.S. while the latter is characterized by personalized and charismatic leadership, mass party etc. Acknowledging that the former model didn't work in the Third World states, Apter affirmed that the sacred - collectivity model worked as shown by China under Mao, Ghana under Nkrumah and Egypt under Nasser.

Thus the western approach towards Third World economic development rested on the modernization premise and the view that the Third World would have to follow the known and proven path of development and socio-economic change, as shown in the march of Europe and America. This package was offered as a homogenous set, earlier with aid and philosophy, now with aid and conditionality: 'take it or leave it'. As Rajni Kothari states, "that nations can make choices, which is the crux of independent political capability is not granted in this scheme of theory and practice. The ethnocentricity of this theory comes from foreclosing all options for the future, in respect of basic configurations of political structures and policy choices.[7] This basis of Western developmentalists is now visible in a new avatar, the policy conditionalities of the World Bank and the IMF.

However, "the record of modernization experiments in the Third World," as Diptendra Banerjee states, "has been the record of the disintegration of ideas, the idea of 'economic liberalism'. The practice of these ideas in the Third World resulted in opening of the resources of these states to the most favorable terms for the Western capitalist countries, in the name of free trade and free market approach".[8]

That this idea of 'economic liberalism' (with a minimum role of state) still addresses the operations of the World Bank will be dealt later. The approach of the West towards Third World economic development under modernization theory and practice came under fire especially from the perspectives influenced by Marxism and allied theory.

Leftist intellectuals offered a blistering attack on the Western developmentalist theory as it failed to address the problem of underdeveloped states. Rostow's take off theory was criticized as it assumed that underdevelopment was an original stage in the Third World from where the march to capitalism and development would begin. It ignored the fact that underdevelopment in the Third World was the consequence of economic and political expansion of the West through colonialism earlier and now through neo-colonialism. Moreover, the diffusionist viewpoint that development approach of the West would work in the Third World collapsed under empirical reality. Shamuyarira (exponent on African Development) observes that the grafting of Western institutions and approach on African states has just not worked even in ideal neo-colonial situations. Moreover, comparatively successful experiments towards economic development as shown by China under Mao, Egypt under Nasser and India under Nehru, have shown the strength of an alternative approach (though results vary) and not following the given one.

A.G. Frank, proponent of dependency theory, penetrated and revealed the weakness of Western approach by stating that: "if developed countries cannot diffuse development, development theory and development policy to the underdeveloped countries, then the people of these countries have to develop by themselves. These three modes of approach are the emperor's clothes, which have served to hide his naked imperialism. Rather than fashion the emperor a new suit, these people will have to dethrone him and clothe themselves."[9]

Frank put forward through his critique that the West is having exploitative and hegemonic interests, earlier in the form of colonialism and now in the historic concern for development in the Third World. This has to be rejected by the Third World states. The extremity of the critique was echoed by Dennon who stated that, "the Western developmental literature is not only ahistorical and apolitical, but behind all the analytical techniques, it is consciously or unconsciously prostituted to the goals of American foreign policy."[10] The dominance of U.S. interests and policy framework in multilateral finance institutions like the World Bank serves as a pointer to the above.

The Western approach of less state and more economic liberalism (definitely not suited, applicable and productive to Third World State) was summarily rejected in light of happenings of African and Latin American countries. These states were being 'opened up' and exploited in a neo-colonial paradigm, with the beautiful face of development eluding them, inspite of Western claims of theory, policy, practice and aid. The focus went towards explaining the causes of underdevelopment in the Third World so that a better understanding of the problem could facilitate an alternative indigenous approach to Third World development. The next issue deals with this view.

B. THE DEPENDENCY VIEW

Modernization theory with its exploitative bias towards West was unable to address the issue of Third World development. Intellectual reaction that followed as a critique to this (principally from the Third World states) includes different perspectives, one being that of dependency and underdevelopment theory. As Hoogvelt states, "if modernization theories of the West were the bourgeois theorists answer to the plight of the underdeveloped Third World, dependency theory was a critique of this as well as a product of application of Marxist theory of imperialism. Dependency theory brought a wide variety of Marxist and non-Marxist viewpoints together under one banner."[11]

Theories of dependency and underdevelopment sought to provide an alternative approach to the study of development, underdevelopment and the role of state in the Third World. The original version of dependency and underdevelopment theory as outlined by Paul Baran and grandly theorized by A.G.Frank, concentrated on locating the cause of backwardness of the Third World within the dynamic growth of the world capitalist system. Under this, Third World underdevelopment as differentiated from undevelopment was not due to some original state of affairs as bourgeoisie modernization theory postulates, but is the result of the same world historical process in which the now developed capitalist states became developed. The dependency approach from the beginning became a world system approach, explicitly rejecting the concept of unified state as an actor and the notion of global system as a collection of sovereign independent nation-states making free policy choices.

Immanuel Wallerstein's world system theory showed that the pre-capitalist redistributive world empires being eliminated by the geographical expansion of the trade based modern world system. This system stabilized the structure of core, semi-periphery and periphery and the mechanism of surplus appropriation by the core is built upon the power of its strong states via the operation of the unequal exchange and the direct transfer of surplus from periphery, that is caught in a dependent relation with external forces obstructing state autonomy and indigenous development. The Third World is thus condemned with the destiny of specializing only in those sectors that are useful to the developed states (core).

A.G.Frank expanded and formalized the substantive theme of dependency into a theory of underdevelopment coining the twin concept of metropolis-satellite to characterize the nature of relationship (economic and political) that existed between states in the world. He propounded the famous view that 'underdevelopment is not just the lack of development'. Before there was development there was no underdevelopment. Underdevelopment developed in intimate relation with the development of now developed countries as a simultaneous result of the historical process of capitalist development over centuries.[12]

Aid, through developed states and institutions like the World Bank and the IMF, for dependency theorists, is regarded as a device that perpetuates the system that makes aid necessary and stunts the Third World state that need to be autonomous of external pressure. "The doctor is the disease".[13] Remedies, which should rise out of dependency, even if radical in nature is denied. This denial for the Third World state is political too, for dependency theories have been nicely co-opted by the central institution of world capitalism (Bank and IMF) that have overlooked the difference in the Third World and sought to impose the Euro-centric and American model of development.

Then what is the remedy for the Third World states and people to break away from the Western dependency that itself is the primary cause of underdevelopment in the Third World? The answer depends on the people to understand these processes and face the task of changing this no longer acceptable process and eliminating this miserable ideology. "The Third World", Frank states, "has to break out of this global extension and unity of capitalist system with its monopoly structure and uneven development".[14]

This is where the state as the ultimate remedy emerges in the Third World which signifies its centrality to any development here, whether social, political or economic. The solution to the problems of development as well as asserting a difference from the prevalent system lies in the all-powerful post-colonial state in the Third World. Writers like Hamza Alavi have observed that post-colonial state in the Third World has played an important and supreme part as reflected in the massive state intervention in economy. State in Third World, according to Kola Olugbade, has lead the formation of nations and national economies and are central to any understanding of the Third World. It is the handicap in form of a rather limited external autonomy and its capacity to challenge the conditionalities of the Western institutions like the World Bank that have to be remedied.[15] States in these societies are still in gestation. State action in the Third World is uniquely complicated by the disarticulating impact of domination exercised by the centre of the world system on its periphery.

The peripheral states are characterized by the prevalence of tradition, feudal or precapitalist relations of production and underdevelopment seen in the level of poverty, illiteracy, and scientific and technological backwardness. Moreover, the peripheral states are those that in the past had the closest relations with the centre. They were great exporters of primary products, a major source of capital and market for the finished goods of the centre.

However, enjoying a certain degree of autonomy to address the issue of economic development, certain states in the Third World like China, India, Egypt and South Africa have performed the role of a direct provider, facilitator and regulator in the production and distribution processes.

It becomes relevant now to look into the thought of two such cases wherein a certain degree of alternative conception of the role of state as well as its application have been undertaken in the Third World.

C. THE MAOIST PARADIGM

Going against the Western developmental paradigm, China under Mao, put forward the alternative Third World vision of state led development both in theory and practice. Two prominent features mark the history of Chinese development. Firstly, the presence of a strong state and public sector that spearheaded the developmental tasks alongwith private participation later and secondly, the Chinese insistence on to be seen as a Third World state, though its achievement indicators are comparable to Western developed states. It was Mao who defined the Chinese road to development in contradistinction to the Western development or modernization theory. He stated:

> "We cannot take the old road of development that all countries took: We cannot crawl in the trails of others. We must break the fixed norms.... this is the meaning of what we call the great leap".[16]

The alternative modernization thesis of China had as a basic content the road to communism as the desired target. Mao put forward his conception of three worlds in order to describe the world as well as to place China in a proper perspective in global relations between states. According to this, the three Worlds included the western capitalist world headed by the U.S., the socialist camp and the independent national states of Asia, Africa and Latin America. Mao placed China in the Third World for he stated that "from the political and population view, China is a great power, but at the same time it is a small economic power". The basic purposes of the three world concept was to, firstly, to give a conceptual definition of what the state in Third World is and secondly, to bring the states of the Third World under China's influence, so as to emerge as a bloc against the West.[17]

This objective was rooted in Mao's opposition for liberalism, for according to him, it rejects ideological struggle and brings apoliticality in essentially political issues. (This is reflected in the Banks definition of governance that removes its essential political nature and gives it a technical face under the free market liberalism framework. Moreover, liberalism to Mao, looked upon Marxism and its theory of state as an abstract dogma without looking at its applicability. Liberalism is negative and has the effect of helping the enemy. That is why the enemy (West), Mao stated, welcomed its presence amidst the Third World.

As an opposition to western developmental philosophy and as an alternative approach, Mao envisaged a new democracy for China, that would have a state system and a joint ownership of all. The economy would, in all aspects, be managed and administered by the state so that private capital cannot dominate the livelihood of the people. This is the main principle for regulation of capital. The aim should be to prevent the establishment of a capitalist society of Euro-American model.[18] Mao's three world concept and an alternative state led development strategy in the Third World marked a paradigmatic shift from the Euro-centric model of development.

This reflects a case wherein a Third World state has shown, in both theory and practice, the merits of state led development strategy, that is essential for Third World development. This is in contrast to what western liberal theory offered in form of a minimal state and free market approach towards development in the Third World. It is no wonder that, Jenmin Jihpao stated in 1975 that "the Third World will sooner or later prevail over other worlds. This can happen only if the Third World states follow the Chinese path.[19] The Chinese theory and practice of state led development had given place to private initiative as well as to foreign capital. China today is the largest receiver of foreign direct investment, has a huge foreign exchange reserve and has a most favored nation (MFN) status in terms of trade with several developed states of the West. All this has been achieved with state being the central pillar. It is not difficult to visualize the eventuality, had China followed the western path of development. It is now necessary to reflect upon another dominant viewpoint that emerged during the heydays of developmental concerns; this symbolizes the Third World in its totality. This is the non-aligned approach to development and the role of state.[20]

D. THE NON-ALIGNED PERSPECTIVE

In contrast to the western paradigm, the non-aligned approach had as its strong central feature, the state. Found reflected in the thoughts of charismatic leaders of states as well as the founding fathers of the movement, namely, Nehru, Nasser Tito, the non-aligned approach was also concrete action, as applied in the Third World. The striking aspect was that though the Third World states (members of NAM) were characterized by diversity of traditions, economy and society yet the strategy applied in theory and practice was similar; one that gave centrality to state in the project of socio-economic development. Secondly, the aspect of socialism, that is to provide for a just and equitous economic and social order was given a central place. This approach visualized an all-pervasive and all comprehensive state that would manage the production and distribution processes, addressing both development and equity. India is the most evident example of this approach.

By their rational and intelligent use of theory and practice as well as their undisputed charisma, non-aligned leaders like Nehru, Nasser and Nkrumah showed to the world that the essential question of development, modernization and social transformation in the Third World has to be sought in a state led paradigm.[21]

Socialist path of development with a strong state was the method that these leaders envisioned and applied in their respective states. Nasser of Egypt sought to bring a socialist transformation of the society under state direction, for he looked upon the state as the vehicle to transform the backward economy left by western colonialist. The method was to develop an extensively state controlled economy in Egypt after 1956. Towards this, Nasser enunciated the 'Socialist solution' in the charter of 1962, involving systematic planning, higher control of national and foreign capital investment and a broadening of public participation.[22] Nasser made a break with the past to the extent that he moved the Egyptian economy from a free private enterprise to a massively state owned and controlled one with central planning thus signaling the centrality of state in Third World development. Moreover, the twin aims of development and modernization including economic and social transformation were to be attained by a formidable state apparatus. This approach was the same as that of Mohammed Ali the Great at the beginning of 19th century- ETATISME. This was state capitalism as a preferred economic approach to create a modern society and a modern and powerful state. This approach was reflected elsewhere too in the Third World.

In India, Nehru saw socialism an as ideal state arrangement, state goal and policy aiming at a system whereby the earth and its fruits will be exploited for the benefit of all the members of the community, in proportion to the services they render to it and not according to the accident of property ownership. Nehru once told Lord Lothian that international anarchy is a result of capitalist system and therefore when State in India embarked on the path of development, socialism would be its reference point. Nehru agreed on the worthiness of private initiative (which the World Bank stresses too) but only in certain sectors. On all other counts, in a more Marxian sense, nationalization of the means of production and distribution was the choice of Nehru, found reflected in the centrality of state that personified the public.[23]

Both these countries therefore conceptualized as well as applied a path different from that of the West and as emphasized by the World Bank-IMF; the path of free market determination. However, this included the accommodation of private sector in a complementary way too. The task that Nehru undertook for Indian State was a formidable one. It was the simultaneous pursuit of national integration, democracy, economic development and social justice. As B.R.Nanda states, "few

Western states achieved this synthesis but over a long process of historical evolution. That this was sought by the Indian State in a much shorter period points to the significance of the whole project, the efforts and ideology that visualized the 'state to be the executer of this task."[24]

The basic formula that these Third World states adopted was that of state centralism coupled with dynamic leadership towards the common goal of economic and social development. Both leaders were good friends and Nehru on several occasions had advised Nasser on various issues of State. Their conceptions of the role of state was an alternative viewpoint that was in contrast to the western emphasis on free market, private initiative and less state which were the basis of unbridled growth of capitalism, whose extremity was, colonialism in the Third World. As a natural response the Third World states and their leaders chose an alternative path, to promote socialistic pattern of development. The results may be limited or small but the fact was that it was the expression of 'difference'. In contrast to this, the western states funded and the World Bank aided undemocratic regimes of the Third World which couldn't, inspite of application of free market principles, come anywhere near the position reached by the two prominent Third World states, India and Egypt.

The effort till now was to put into perspective the view that unlike West, the Third World had a different conception of state, its role as well as the path of economic development. As a preliminary conclusion drawn from the discussion of 'modernization thesis', it could be validly stated that the western developmental approach was largely unsuited for the Third World as it neglected the local specificity's, had an ethno-centric bias and a patronizing element. Moreover, it ignored the fact, as shown by the discussion on underdevelopment, that this development strategy that seeks to eliminate Third World underdevelopment was responsible for it in the first place. Such an application would keep the Third World as an appendage to the global capitalist system dominated by western developed states.

The Third World approaches emanating from its soil stressed on the importance of 'difference' from the West as well as being 'different' within the Third World. This 'difference' is located in the objectives and purposes set before the state, the role of state in such tasks and the desired form of socio-economic organization of the society. By putting the state at the heart of this strategy the Third World approach went against the guidelines of financial institution like the World Bank and the IMF. Therefore, these institutions reinvented themselves in the conditionality era with a reformed framework to co-opt the Third World into the global capitalist system and foster the principles of free market liberalism in the Third World. (The next chapter will specifically look at this).

Having stressed the importance of 'State' in Third World development, separately, as well as in the thoughts and practice of different leaders, now, as an empirical reference, it would be relevant to look at a case wherein the application of such a doctrine is clearly visible i.e. the Indian State. The reasons for such a selection are:

i. India is a leading Third World state.

ii. Centrality of state in Indian project of development.

iii. Familiarity with the existing literature.

All these would enable an examination and analysis of both theory and practice of an alternative paradigm of development, different from that advocated by the West and provided by the World Bank. At the outset, it is to be noted that what entails here is a brief examination of issues relevant to the present work, for any study of Indian State would be enormous. The 'difference' within the Third World as stated above was that the state itself is marked by several contradictions and it is not an 'autonomous' state as envisaged and sought by the western developmental theory. Politics is the primacy here in state organization, access and control over resources. This is complicated by the presence of a complex social organization marked by inequality that translates not only into idiom's such as income (as in West) but also in others like status, caste etc., that go on to impact upon the state processes. Keeping these in mind, three issues would be dealt in the next section. Firstly, the nature of Indian State (To ascertain whether it is 'autonomous' in the western sense).

Secondly, strategy of development and the role of state (To ascertain the strength of the alternative approach, if any). Lastly, to look at the Indian State's engagement with financial institutions like the World Bank and the IMF. (To ascertain whether state autonomy is restricted by external forces and whether any change in the development strategy is under the influence of the Bank and the IMF).

SECTION II

A. THE INDIAN STATE

Underlying the reference to the Indian State is the primary reason of reflecting upon the active role of the state (in Third World) in economic development which revolves around the twin axis of 'state autonomy' and 'state capacity'. Both address the position and capacity of the state to undertake its tasks and to face any attempt (internal and external) that seeks to circumscribe the working area of the state as well as its autonomy. Before looking at the role of Indian State in economic development, it is essential to see what is the nature of Indian State, who controls state power and resources. This is essential as reflected earlier state in the Third World societies like India are not only different from the West but also complex in the sense that diverse social forces impact upon the developmental activity of the state, at times directing and controlling it.

Reflections on the Indian State fall broadly into two categories that focus on the different aspects of the state. The liberal modernist paradigm, according to Yogendra Yadav, represents the political-institutional perspective that focuses on institutions and processes for understanding the character of public power. The Marxist persuasion represents the political-economy approach that focuses on issues of political economy to understand the nature of Indian State. Another approach is that of an amorphous group of theorists trained in sociology or anthropology who focus on the interaction of politics with the belief system of the society. Some of them stand for 'traditional' values others for 'modern'. This is the cultural perspective on the Indian State reflected in the works of Ashish Nandy, T.N.Madan and others. [25] However the present study would focus on the first two approaches only.

The liberal modernist approach theorizes on the Indian State along the lines of theory of European states. This frame of reference views the state as autonomous of societal forces and capable of reproducing the same type of development as in the West. The terminology was changed from westernization to modernization to the more euphemistic 'political development' in order to posit the essentially Euro-centric approach as applicable to India, as an approach towards development. Writers like Morris Jones, Gunnar Myrdal looked upon the nature of Indian State from this perspective. Rajni Kothari made the most impressive attempt in this perspective, in his classic 'Politics in India'. Without challenging the European model, Kothari posited an alternative path to the same destination. In this, the dominant centre (state) through planning and democratic politics would bring an 'incremental revolution.' Moving from his earlier stance, Kothari acknowledged that the neo-rich interests have eroded the Indian State's autonomy since the 1970's.[26]

The above paradigm writers bring out certain key features of the Indian State. Firstly, Myrdal terms the Indian State as a 'soft state' because of its incapacity to formulate policies and its inability to enforce the formulated policies. Secondly, due to the centralization of power by the state, democracy is in danger. Thirdly, the state has been incapable of handling violence and unrest. Atul Kohli terms this as a crisis of governability in his work. Fourthly, the state has been inefficient in handling the development process that has resulted in concentration of wealth and power in the hands of the privileged sections and has marginalized the majority of the population. Lastly, there has been a general institutional decay in the state apparatus eroding its autonomy seriously.

The Marxist approach on the Indian State, on the other hand, focussed on the linkages between the operation of public power and dominant interests in the society to explain the nature of the Indian State. Its overemphasis on economic determinism as shaping state power was corrected by the Gramscian resurgence that brought the concept of 'relative autonomy' of the state.[27] Hamza Alavi's and Pranab Bardhan's work form the main expression of this. Rudolph's reflected on the autonomy and reflexivity of the Indian State and public power. Their work falls under the 'eclectic' approach that signifies a study that is not based on any ideological position. They characterized the Indian State as a 'rich-poor economy' with a 'weak-strong' state.

The Marxist approach, thus, takes note of the relationship of the state with the ongoing social processes of production and transformation. Marxists seek to address the nature and character of the Indian State as well as the relationship of the classes to the state within the dynamics and contradiction's of capitalism.[28]

Any serious explanation of the state in India, therefore, must locate the nature of state within the socio-historical context, the paradigm of state intervention and the shifts in state strategy. The social relations obtaining in the society condition all these. The liberal paradigm on the other hand emphasizes on the primacy and independence of the political processes while studying the nature of the Indian State.

According to Ghanshyam Shah, the liberals view the state as somewhat neutral or relatively independent of the conflicting interests in the society. The state is, therefore, characterized as modern or developing. On the other hand the marxists view the Indian State as representing and protecting the interests of the propertied classes. They characterize the Indian State as a capitalist state.[29] Marxist thought regards the Indian State as the class state of the exploiting vested capitalist interests though within themselves they are sharply divided on the class character of the state.

Then what is the class character of the state? Is it a multi class state or a single class state? The Marxist tradition differs on this. The Communist Party of India (CPI) observes: "the state in India is the organ of the class rule of the national bourgeoisie as a whole, in which the big bourgeoisie holds powerful influence. This class has strong links with the landlords."

The Communist Party of India (Marxist) observes, "the state in India is the organ of the class rule of the bourgeoisie and landlords, led by the big bourgeoisie, who are increasingly collaborating with the foreign finance capital, in pursuit of a capitalist path of development."

The Communist Party of India (Marxist-Leninist) contends: "The Indian State, is the state of the big landlords and comprador-bureaucrat capitalism and that its government is a lackey of U.S. imperialism and Soviet Social-imperialism."

The Revolutionary Socialist Party (RSP) posits that: "The position of the Indian bourgeoisie as the ruling class, the class in political power, vis-a-vis the proletariat and other sections of the toiling people automatically defines for us, the social class character of the Indian State and government as being basically nothing other than a bourgeoisie or capitalist state." [30]

These viewpoints though differ on the class character of Indian State but agree on some issues. Firstly, that the state in India is not neutral, secondly, the state represents and thus promotes certain sections of interests that are dominant.

Therefore state policy and state led development strategies are but an extension of the ruling class interest. As Marx stated picturesquely in *GRUNDRISSE:*

"In all forms of society there is one specific kind of production which predominates over the rest. It is a general illumination which bathes all the other colors and modifies their particularity. It is a particular ether which determines the specific gravity of every being which has materialized within it."[31]

Writers like Buddhadev Bhattacharya observe that the Indian State that emerged after independence reflected and protected the interests of private capital, in whose interests the state policies were made and implemented. Indian State is thus essentially, a capitalist state.[32]

The liberal paradigm writers like Kothari and others do not view the Indian State as capitalist. Rather they examine the role of Indian State in capitalist development. They contend that opposite tendencies have been present in respect of the relationship between state and capitalism. Contrary to the European experiment wherein the bourgeoisie captured the state and pursued capitalist development, the Third World states have emerged as independent entities and their role has been perceived as the agent of accumulation, distribution and development. This puts the Third World states like India totally in contrast to the western developed states as well as the view of the Marxists. Though later, this paradigm writers like Kothari admitted that the autonomy of the state (such as in India) has been eroded in this mission and business interests increasingly dominate and control the state thus excluding the large sections of populations from the purview of the state.

In light of the above paradigmatic arguments, how to characterize the Indian State. Is it a class state, a capitalist state, a developmentalist state, or a multi class state? Where does an observer locate the nature of the Indian State that is essential to understand its role in economic development as well as the importance of 'state' itself.

As Dipankar Gupta observes, theory of capitalist state are of little use to characterize the Indian State today, for Indian State has other features like democracy, socialism, welfare etc., which a one sided theory cannot capture. Writers like Alavi (1972) and Frank (1980) posited divergence between the capitalist state in theory and the actual reality in many Third World states. Poulantzas was the first to strike the warning bell against the generalizing trend in capitalist state theories.[33]

The problem arises because how can a state which is privileging the dominant interests maintain its aura of class neutrality? How is that a state that is serving the interests of the 'capitalist' be based on a founding stone called 'socialism', institutionalized in its constitution? How is that the state is able to address the issues of social welfare, justice, equality, protective discrimination that usually go against the interests of the capitalist?

The answer lies in the concept of relative autonomy which explains the phenomena specific to a Third World state like India. Pranab Bardhan stresses this when he states that the Indian State is able to shape class alignments and interests by maintaining an autonomous sphere. According to him "society centred theories of Marxists as well as liberal pluralists have managed to keep our eyes averted from what Skocpol calls the explanatory centrality of states as potent and autonomous actors."[34]

This autonomy-potentiality of Indian State has made it acquire the basic structural difference, according to Samir Amin, which puts the Indian State as a backward but independent capitalist country at the edges of the core rather than a typical dependency of the peripheral type in the global capitalist system.[35]

This autonomy-potentiality therefore prohibits the characterization of Indian State solely as a single class state or capitalist state for it would be a sweeping generalization that would go against the welfare and developmental role of the state that has benefited both the rich and poor though the latter were always way behind the former. Classes are constantly evolving and class interests too keep changing and align vertically and horizontally based on the emerging context. The role of state need to be seen accordingly.

For the present work, an overview of the development strategy as well as the role of state in it, as found in India after independence becomes essential. It is in order to understand the role of the state (in Third World) in economic development as well as to ascertain whether state policy and state intervention have been able to address development and equity in face of the nature of social forces impacting on state power. This would help to provide an answer to the Bank's insistence on free market and a minimal role of the state in Third World.

The period as well as the literature on the Indian model of development, directed and controlled by the state, is vast. The emphasis therefore would be to address the basic issues as to whether the state in India has been able to address the issue of capitalist development and equity? Has the Indian State been able to address the interests of different classes, rich and poor, which would then make it a strong case for the centrality of state in Third World development. How well has the Indian State performed as a provider, facilitator and regulator of economic development? The merit of Bank's insistence on a minimal state could then be viewed in this light.

B. *CAPITALIST DEVELOPMENT AND EQUITY: ROLE OF INDIAN STATE*

National independence generated a new consciousness in the people, which was a demand for a better life along with the goals of economic development and modernization. Stability and development in this huge land of diversity with socio-economic backwardness necessitated the centrality of a public institution, the state, to address the tasks of accumulation and distribution that emerged in the dawn of "new nationalism". The idea of state planning and intervention expressed the project against the particular brand of 'Laissez Faire' that was natural to colonial regimes. The idea of centrality of state in the Indian project of development thus tended to be the symbol of how independence, once secured, should be used for the benefit of the nation.[36]

Therefore, in order to facilitate rapid accumulation, development, modernization and equity, the Indian State was given centrality, for private forces were seen as exploitative, profit oriented and oblivious of the needs of deprived and underprivileged. A mixed economy was thus envisaged under state control. According to Rasheedudin Khan, this was based on the coexistence of public and private determined by the interaction of what has been called the 'invisible hand of market' and 'visible hand of planning' (state).[37] Public sector under the state was designed to take charge of the core sectors of the economy. It was to provide the foundations, in terms of infrastructure, towards supporting the goal of development and modernization, in which the private sector was given space in specific areas though under the control of the state. The role and scope of public sector (state) as stated in the Industrial Policy Resolution of 1956 was:

"The adoption of socialistic pattern of society as well as the need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector."[38]

In contrast to the western debate of public versus private in which the private sector, under the liberal framework suspected any expansion of the public, the Indian scenario was different. The Bombay Plan of 1944 had leaders of business and industry ('private') recognizing that the state had to play a positive role in economic development. Private capital fell short of size and inclination to enter huge sectors like infrastructure that necessitated the intervention of the state. Therefore with the private sector giving way, state control and authority was established over the "commanding heights of the economy."[39]

The interventionist Indian State that emerged with an aim of ushering development and modernization had two key features according to Kohli. Firstly, no clear distinction between public and private was maintained combined with an overarching presence of the former. Secondly, the Indian State typically controlled and owned a substantial proportion of the economy.[40]

The state intervention had as a basic principle, the ideology of planned development, in which an active and decisive rǒle belonged to the state; by its own acts of investments and enterprise, and by its various controls, inducements and restrictions over the private sector. State intervention according to Myrdal was called for several reasons, primary among them being that the state can act as a provider of capital as well as guarantee the and flow of international capital, even if it were to go for private sector. Secondly, huge sectors like infrastructure etc., needed the state because the private sector due to the size and the element of long gestation periods wouldn't volunteer into this. Lastly, the relative lack of entrepreneurial skills in the private sector called the state to boost manpower and skills. For these reasons, Edward S. Mason refers to, when in writing about planning in Third World countries, he says that, "state dominated almost by default." This is true for India.

Partha Chatterjee echoes this when he states that "a developmental ideology then was a constituent part of self-definition of the post-colonial Indian State. The state was connected to the people not simply through the procedural form of representative government; it also acquired its representativeness by directing a programme of economic development on behalf of the nation.[41]

Private sector was given its due place, even though Lenin's conception of imperialism as the highest stage of capitalism brought profound doubts about and against the concept of free enterprise and free market. The first plan therefore emphasized that private sector has to continue to play an important role in the production and distribution processes though it would be under public regulation and guided by state priorities. The system of private enterprise as envisaged was to be different from the one existing. It would have to fit into the scheme of national planning and have to conduct itself in a manner to satisfy the public at large, that it meets social needs and avoids misdirection of national resources as well as exploitation and corruption.[42]

The phrase public versus private is therefore misleading in India. It conveys an impression of competitiveness between the two sectors, whereas, in the Indian State model, they were envisaged as complementary and given due place. This is in contrast to the World Bank's perception as Hanson states, "in its surveys of various underdeveloped countries, almost invariably, the Bank assumes that a vigorous growth of private business is the *ultima ratio* of economic development."[43]

The task thus before the state was to realize development along with equity for the large sections of people living in the vicissitudes of poverty, illiteracy and domination. Indian development model under the state was also based on the principle of social justice that were envisaged in the state policy directives:

Art. 38 (1) states, "the state shall strive to promote the welfare of the people by securing a social order permeated by social, economic and political justice."

Art 38 (2) states, "The state shall, in particular, strive to minimise the inequalities of income and endeavour to eliminate inequalities of status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in different areas and engaged in different vocations."

Art. 39 (b) states, "the state should secure that the ownership and control of the material resources of the community are so distributed as best to subserve the common good."[44]

However these tenets of social and economic revolutions were relegated to a non-justiciable part of citizens rights, in order to facilitate the tasks of development and modernization. To address the issues of people, the state embarked on very ambitious programmes of education, health, basic needs etc., all towards ensuring a just order in which the fruits of progress could be shared by everyone. However, the great paradox that came to characterize the India State was that while greater equality was proclaimed as an immediate goal for planning and state policy, marked inequalities existed everywhere. The top 20% of the population owned and received more than 80% of assets and incomes respectively. The economic inequalities visible in the monopolisation of resources by the deliberate use of state power was a fallout of the structure of hierarchy and dominance that was visible in the society often translating into idioms like caste etc. In more Marxian sense, those who owned economic power had control over political power (state).

This was because policies of the state that targeted social amelioration were often not implemented and enforced; policies that addressed the issue of economic inequality often resulted in the garnering of the benefits by the economically dominant class, business interests and big landlords of the rural areas. The most important failure of the state was in its inability to carry out land reforms to fulfill the directive of Art. 39(b). That the envisioned ideals of development and equality were not being fully realised was admitted by Nehru himself who dominated the first two decades of Indian State's activities. While presenting the Third Plan he stated that:

"though there seems to be signs of growth and of economic prosperity everywhere but everybody is not sharing it. Large number of people still live in poverty and on the other side a small group of really affluent people are holding the direction of flow of wealth and not letting it spread evenly."[45]

What was, however, not acknowledged was that this kind of an economic concentration resulted out of state policies that were shaped by the dominant interests that captured state power and obstructed any move towards a radical restructuring of the society. It is this that remains an unfinished agenda of the Indian State.

But why is that the state is still able to maintain the face of neutrality? How is it able to address issues that go against the interests of those who influence state policies? It is because as Bardhan states, "due to diverse elements of the loose and uneasy coalition of the dominant proprietary classes which pull in different directions and as well as none of them is individually strong enough to dominate the process of resource allocation, leads to a situation wherein state policies placates all of them through subsidies, grants, licenses, welfare etc., though severely reducing the available surplus for public capital formation, essential for development investment."[46]

Planned development within the matrix of a mixed economy under the state has its own set of contradictions. The public sector, in the framework of a capitalist mode of production has not promoted the prospects of socialism but rather has provided at public and state costs, the infrastructural support that facilitated the growth and expansion of a sprawling capitalist system. Therefore, rather than development of indigenous capitalism, it was 'state capitalism' dominated by the economically privileged sections of society. This process has made the rich richer and the poor poorer, if not in absolute, then certainly in relative terms. This is visible today in terms of wide income inequalities, lack of civic amenities and basic needs to a large section of people, uneven spread of literacy and development, lop sided urbanization etc. Moreover the recent intensification of regionalism, communalism and casteism along with economic inequalities across people and regions is a product of the operations of capitalist development since independence.

The Indian economy has a striking feature which is its low dependence on foreign trade throughout its 50 years of existence. Primarily dependent on the huge internal market, the economy has been able to sustain international economic shocks such as the recent one of South East Asian nature. The lure of a huge market, as well as to 'globalize' Indian economy, is a strong reason for institutions like the World Bank to push the Indian State towards the free market. This would, firstly, open the huge market to foreign interests, secondly, provide a market for dumping foreign goods, thirdly, once caught in the global principles of trade more room for shaping the policies of the state would be there for the Bank. Nobody is against globalization and free market that would reward initiative but it shouldn't be imposed and should rather emanate from within, in the form suited to Indian specificities.

But does all this mean that the state in India has been ineffective? Does it call for a 'rolling back' as the World Bank states and allowing free market? Are we ready for this?

The assertion of the present work is a categorical no. The Indian State in its 50 years of intervention has brought significant economic and social development.

These are reflected in, firstly, the state has laid and built a strong infrastructure in areas of power, irrigation, communication, transport etc., that has solved the basic necessities of development. Moreover, the private sector has utilized this essential state achievement to build its own empire.

Secondly, the Indian State has built a formidable scientific and technological apparatus along with skilled manpower. This has provided the much necessary technical and scientific inputs involved in the complex tasks of development. Moreover, the benefits of advanced technology and scientific research has penetrated and given results in fields like defence, climate research etc. All these are the essential but non-obvious necessities of development.

Thirdly, through the means of democratic politics and universal suffrage, the Indian State has served to protect the interests of the weaker sections by making access to political power dependent on the people. Welfare policies and affirmative actions through ambitious and diverse policies and programmes have lent some practical meaning to the 'socialist' foundation' of the Indian State.

Though the achievements on all these are limited yet they are better when compared to other Third World states. Moreover, the existence of a strong and vibrant economy today, increasing foreign reserves, rise in living standards all point out to the achievements of the state. One can in this light only wonder what would have been the scenario had free market approach been adopted at the time of independence in a society like India where a 'level playing field' was nowhere in sight.

Today, we are confronted by a completely different model of world capitalism, a switch from the European to the American model in which corporate form of organization conditions the behaviour of the states, making all other relations of production subordinate. This, mediated by the leverage and conditionalities of the Bank and the IMF has generally forced all other systems - the socialist, the Third World to fall in line and ensure as well as to measure growth and development in terms laid down by the American syndrome.

"The new thinking," as Mridula and Aditya Mukherjee state, "that has set in, terms that, the state is no longer efficient means for progress and for march into the 21st century. Instead it is an impediment, to be replaced by market."[47] Therefore, the call for switch from public to private, from state to market as an approach to development. In this the marginalisation of people, exploitation of natural resources for private needs are accepted as necessary costs that the nation has to pay for 'catching-up'. Even before the Indian State could achieve its founding goals that are enshrined in its preamble, global currents and thoughts have changed the discourse itself. The fact that inspite of being encircled, dominated and at times captured by class interests, the Indian State has been able to maintain its relative autonomy and has functioned towards the twin goals of development and equality has been put aside. The discourse has been changed even before a social and economic restructuring could take place. Paradoxically, this is a doctrine promulgated by the state itself or by the bearers of its power, all attracted to the idea of reducing the state's role and turning to market that would symbolize individual endeavour. This has happened concretely since 1991, when the World Bank and the IMF supervised structural reforms were adopted, that have set the ball of liberalization, privatization and globalization into motion.

An alternative strategy is essential to face the new challenge of the market. It is well realised and accepted that the state has not functioned in some areas as the huge loss making public sector undertakings reflect. Also a reexamination of the sphere of state intervention is called for in India so as to shred the excess weight of the overdeveloped state. However, such a rethinking should be located in the state arena itself and not outside it (World Bank). Free market as a principle of economic organisation is growing on the Third World states like India. However, the emphasis should be to raise the potentialities of domestic units of the economy so that they can match the competition internally and from external private actors. All this should be in a socialistic transformation framework with the state as the central agency. State is central to India as well as for the Third World societies that are being invaded by foreign commercial interests collaborating with local vested interests. Till the day every individual within India possesses both the potentiality and opportunity to compete with others, the state should continue to be the provider, facilitator and regulator of goods and services. It is essential that those goods which market can provide better be left to the market. The state should focus on sensitive goods and services that are the backbone of any kind of development.

Indian State since independence has been a receiver of World Bank and IMF aid, loans and grants. Along with this it has also been receiving policy advice from these two financial institutions. India is the largest beneficiary of World Bank funds. It is essential to take a look at Bank-India relations (in brief), so as to explore the emerging situation since the Indian change of development discourse beginning 1991. The next section will briefly deal with this.

C. WORLD BANK AND INDIAN STATE

It is a coincidence that, both the formation of the Bank as well as the attainment of Indian independence were within a span of 3 years of each other though British India had already became a member of the Bank in 1945. The first loan that the Indian State received from the Bank was on 18 August 1949, worth 34 million dollars, towards the development of railways. It was not long before India became one of the top 5 recipients of World Bank aid. Today, India is the largest beneficiary of IBRD and IDA loans as well as the fact that out of the total overseas development aid that flows to the South Asian region, nearly 80% comes to India. The very fact that India was a major developing country of the Third World with huge population and needs attracted the attention of the Bank and the IMF which itself were undergoing rapid expansion in size and operations. Moreover, as India due to her historical traditions, size, resources and being the largest democracy of the world was naturally destined to be a leader of the Third World. Therefore, it became pertinent for the Bank and the IMF to focus on India for reasons of her size and potentiality.

The most important step of the Bank towards Indian economic development was the creation of Aid India Consortium (AIC) in 1958, that included as members, the government of Canada, Germany, Japan, U.K. and U.S.A. Many other countries joined this forum later on. Its birth was amidst a review of the Indian foreign exchange crisis and the prospects of the second five year plan. This forum organized by the Bank has since then, pledged aid to finance India's five year plans as well as to provide aid in emergency situations. Along with its aid, it also reviews Indian plans and gives policy advice based as its own worldview. The chief aim of the Bank through the AIC was to promote foreign private participation in Indian economy.

It was not long before that the Bank's power of leverage was seen with regard to India. The Indian economy suffered heavily after the war of 1965 and two successive droughts between 1965-67. Moreover, this was coupled by depleting foreign exchange. The Bank, therefore sent a team to undertake a review of the situation as well as to analyse Indian policies. Its recommendation led to the 36% devaluation of the rupee in order to ensure more aid. Max Millikan wrote in 'Foreign Affairs' (April 1968) that India's devaluation of the rupee in 1966 and the liberalization of import controls as a condition for more aid were undertaken at the strong urging of the Bank and the U.S. government. Some sections of people believe that it was India's own reasons and not pressure that led to devaluation. But the fact is that two factors, firstly, Indian integration with the global capitalist system and secondly, the Bank's involvement through huge aid were potent reasons for such policy measures taken by the state under external influence. The Indian government frequently sought to allay the doubts of the Bank so that it doesn't suspend or stop lending. On being criticised for underestimating the potentialities of private enterprise (foreign and domestic) by the then President of the Bank, Mr.Eugene Black, the response of Indian government showed its dependence. The then finance minister, Mr.Krishnachari along with the Reserve Bank of India governor, H.V.R. Iyengar made a representation to the Bank and stated:

"The 'socialism' contemplated in India does not by any sketch of imagination mean communism; it does not mean state capitalism... It is a system under which private competitive enterprise has and will continue to play a vital role; it is a system, which respects private property and provides for compensation if such property is acquired by the state. I submit there is nothing in the system which should be repugnant to the social conscience of the U.S.A".[48]

This vulnerability and submissiveness provided the room for the Bank to intrude more into the Indian economy in order to restructure it according to its policy advice. Along with pumping more aid into the economy the Bank has also been pumping its philosophy for the past 50 years, earlier as advice, now as conditionalities. This philosophy known as 'free market' had as its tenets: dismantling the public sector, a minimal role of the state and encouragement to private participation (foreign and domestic). This articulation of the Bank has influenced policy changes of the Indian State over time.

The most radical restructuring of the Indian economic system occurred in 1991 under the Fund-Bank supervision. This was called the 'Structural Adjustment Programme' (SAP) in the Bank's terminology, though to make it politically appealing the Indian government called it 'new economic reforms'. A significant point to note is that this was undertaken in face of a foreign exchange crisis wherein the available reserves could meet only a week of imports. Therefore, the Indian policy makers pledged themselves to the conditionality of reform and restructuring to avail more aid. It is highly ironic that whenever a policy shift has occurred in the Indian State, two factors have been constant, pre-change economic crisis and the presence and influence of the Bank.

The structural reforms or the conditionalities imposed by the Bank in 1991 on Indian State included the LPG model: Liberalization, privatization and globalization. These conditionalities imposed by the Bank aim at reorienting the planned economy to a market centred economy. Liberalization involves the core idea that economic management should be left to the market, with the determination of prices through the forces of supply and demand. All controls and regulations should be done away with and free entry to foreign companies should be provided. It follows that the state should take a back seat in economic matters for state intervention, according to the Bank, in the Third World creates inefficiency and benefits the privileged sections only.

It follows from this that whatever public sector economic activities are there in India should be closed down or trimmed and passed to the private sector. This is privatization, the second step. This would, as suggested, improve efficiency and bring much required funds for reducing fiscal deficit of the state. The third idea that is globalization is the major objective of the Bank. The core idea of this then is an open door policy with regard to multinational companies along with non-discriminatory treatment to them. The essence is to improve domestic industry through competition with foreign companies. It is another thing that within couple of years of re-allowing Coca-Cola, the American soft drink giant after its expulsion in 1970's, the indigenous soft drinks have been wiped out by the two multinational soft drinks company, Pepsi and Coke. These two today dominate the soft drinks sector and are engaged in the famous 'Cola wars'. What are the factors that make these multinational giants dominate over the indigenous enterprises? According to Baldev

Raj Nayar, Indian business suffers in comparison with MNC's due to the smaller size of its enterprise as well as due to having operated for four decades under a regime of controls. Secondly, the cost of capital in terms of payable interests is higher for Indian companies as compared to the MNC's. Indian business does not have much access to capital of the world economy as compared to the MNC's. Thirdly, foreign MNC's have huge financial resources at their disposal to set up as well as buy Indian enterprises and to suffer sustained losses. Fourthly, MNC'c have technological superiority over the Indian companies alongwith the reduced requirements of labour. Lastly, in some sectors like power, the policies of the state have discriminated in favour of MNC's. The dominance of MNC's is visible from the fact that after the economic reforms of 1991 the major Indian players in the arena of soft drinks have been wiped out. Parle Corporations that had the popular brands like Thums Up and others was taken over by Coca-Cola. Another example of the elimination of indigenous actors by takeovers is that of Hindustan Levers Limited that has built its empire on the acquisition of Indian companies like Kothari General Foods, Dollops, Kissan, Kwality, Ponds (India) and Lakme. The significant fact was that all these companies were doing well but couldn't match the power of this MNC.[49] All this is then a part of the World Bank's philosophy that is pushing the Indian State towards a free market system. What role then would be left for the state to perform in India?

The role that the Indian State is left with is the task of promoting human capital formation through literacy, technical education, health facilities and basic needs. The state, in effect, has to focus on the core issues of the 'social sector' and here too, private initiative has to be given space. It should step in only when there is a 'market failure'. Apart from maintaining law and order, the state in India under this program is expected to create and maintain an incentive structure and environment that is conducive to production under private ownership. The pains of this transition, the Bank states, would be, growing poverty, increase in prices leading to inflation, inequality and unemployment. However according to it, this is the price of the past follies of the Indian State and for future prosperity.[50]

The Indian State has already taken measures towards realising a market economy. The closure of several public sector undertakings, disinvestment, deregulation, more space to MNC's all symbolize two features, firstly, the Indian State rather than evolving its indigenous approach has complied to external pressure. Secondly, the transition to a market oriented and market-centred economy has begun. The Indian State has failed to note that 17 years of African experience with structural adjustment have failed and have increased their dependency to an extent that they take aid from the Bank to service their previous debts to the Bank itself! The biggest flaw that this policy contains is that it desires that the Indian State should restructure its economy to global economic environment implying an entry into a system already dominated by the developed capitalist states. This approach of the Bank towards the Third World states does not place any obligation on the rich countries to shape their economies in tune with those of developing countries of the Third World. The phenomena of East Asian state's that through the strategy of import substitution and state intervention alongwith the role of foreign capital that spearheaded it within an alternative route of indigenous capitalist development, remains the only successful case of adjustment. But the latest financial crisis gave a telling blow to this philosophy and showed the havoc that foreign capital can play with domestic economy.

Inspite of all this, the Indian State has went on with the reforms and a second generation reforms are on the anvil in the ninth plan of 1997-2002. The effects are already visible in terms of price rise,' rising inequality etc. The full effects of this would unfold in the coming years. The only guarantee of safety would be the presence of a strong state (as argued before) in the changing global economic scenario.

It is essential now to examine as to what conception of the role of state does the Bank have for the 21st century. What are the measures that it employs to realise this in the Third World? This forms the concern of the next chapter that would specifically focus on the Bank's conception and methods towards this. Methodically and systematically, the Bank has advocated its philosophy and through measures like advice and conditionalities has sought to realise its philosophy in the aid receiving countries of the Third World. It is to this philosophy that we turn now.

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CHAPTER III

'ROLE OF STATE' AND WORLD BANK

State is central to the project of development in Third World. This is the primary reason as to why international funding agencies like World Bank and IMF have focussed on the role of State and sought to lay out the policy framework and recommendations on what should be the essential role of the state in the project of development. The first chapter emphasised that though the goal of all states could be common i.e. 'development' but the means, methods and results largely depends and differ on how the state sphere is defined. Moreover, the role of state differs when the form of state in existence differs. State in a laissez faire model has very minimum functions as compared to a state in socialist model. This has been the claim of liberals which was criticized as false by Marx.

The second chapter was an illustration of the 'difference' in the very conception of the role of state in Third World as well as its actual performance. State in Third World has performed a different and important role with regard to economic development. The specific reference to Indian State sought to establish firstly, the difference from the Western developed states. Secondly, inspite of the inherent contradictions of use, control and benefit from resources, the state has performed the role of a direct provider, facilitator and regulator of economic development while at the same time addressing issues of social equity. The centrality of state in the project of development was thus emphasized. However as was shown, since 1991, a change of discourse on the role of State under the aegis of the World Bank and the IMF has been carried out in India. The traditional role of the Indian State has been replaced by the World Bank's conception. What is this conception of role of state that World

Bank offers for Third World? What form of state emerges from this conception that World Bank has advocated over the years? The present chapter addresses this issue by providing insight into the Bank's conception of role of state.

The Bank by virtue of it being the biggest, richest and the 'best' development funding agency has gained strategic importance. It advocates its conceptions and thoughts in its numerous annual reports, special country studies and other propaganda literature. These have importance which can be gauged from the fact that Third World states take these reports, the policy pronouncements and data provided by the Bank as inputs to determine and shape their own state policies with regard to economic development. At another level the Bank itself engages in direct consultation with member states towards policy changes and reforms. Therefore, an examination of Bank's conception as well as changes in it over the fifty years of its 'glorious' existence becomes central for the present work.

I. CHANGING EMPHASIS OF THE BANK

The Bank has over the 50 years of its existence and engagement with developing countries has continuously shifted its emphasis with regard to development issues. It has travelled a long way from the focus on reconstruction through the State in 1950's to the present post-Washington Consensus that emphasises in the 1990's factors like good governance, a minimal State, free market, democratic development, human rights, civil society etc. "The World Bank", as Swaminathan S. Anklesaria Aiyar states, "has changed color more frequently than a chameleon in the last five decades oscillating from full blooded support to Marxist economic experiments to the simplistic free market ideology.[1]

Moreover, the Bank's ideas about influencing the general economic policies of developing countries and its methods of doing so have evolved over the years. A rise in its resources and power has assisted the extent of its involvement and influence on Third World states that are highly dependent on its aid programs. None of these have been neither envisaged nor formalized in the Bank's original statutes. Nevertheless, they have become highly important in the present era.[2]

The initial years of the Bank between 1944-50 had as its focus, the reconstruction of war-ravaged Europe. The first loans were thus made to France, Netherland, Denmark and Luxemburg under John Mcloy's presidentship. That the Bank was from the very beginning under the stranglehold of U.S. interests was shown by the resignation of its first president Mr. Eugene Meyer after 6 months citing undue interference of U.S. in the affairs of the Bank creating obstructions in its activity. When Marshal Plan took over the project of reconstruction, Mcloy signaled that the reconstruction phase of the Bank's activity as largely over and 'the development phase being underway'. It was thus entering an area that it would dominate and into which it was to infuse its understanding, terminology and meanings.

The second phase under Eugene Black's presidency was witness to the attempt of the Bank to establish itself as a commercial development lending institution and to acquire credibility on the Wall Street. This was to ensure that its bonds were highly attractive and default on it would be so embarrassing for a member state that it would rather accede to the World Bank's policy line. The Bank during this period from 1950-58 expanded its lending towards infrastructure - roads, railway, power etc., which became the characteristic project based lending programs. It also defined development as a growth in Gross National Product (from which it was to shift in later years). Its affiliates namely International Finance Corporation (IFC) and International Development Association (IDA) were created during this period towards giving thrust to private participation and to strengthen the World Bank Group. A realisation in Third World states had already come about the harshness of Bank's terms and conditions. Thus a demand for a more liberal type of development funding had emerged which the Bank met by creating these two affiliates. This was to enhance its own powers of leverage by controlling the disbursal of concessionary aid to member states.[3]

The third phase of Bank's existence from 1958-68 was of a realisation that its avowed aim of emerging as the leading development financing institution was retarded by the lack of creditworthiness of the Third World states for they had not developed such capacities as yet. Towards this the Bank created soft lending affiliates. One example is the Aid India Consortia, a major forum for assisting Indian project of development. On one hand during this phase President George Woods initiated many changes such as loans for education and modification of the rigid opposition to state owned enterprises while on the other this phase also witnessed the Bank's emerging concern with the general economic policies of the countries to which it lends. For the first time in 1968 the usually unforthcoming reports of Bank specifically referred to the fact that it is henceforth making its lending conditional on the adoption of general economic policies it considers satisfactory. To quote from the report:

"The Bank seeks to acquire a comprehensive picture of the position and prospects of borrowing countries economies and their development requirements. This makes it possible to identify sectors and area of high potential and provides guidelines to the types of projects that should be given early attention. It also enables judgments to be formed about a country's economic policies and other questions relevant to its economic growth and to its eligibility for Bank loans."[4]

This phase contained the seeds or trends of the Bank's future conception of the role of state in economic development that came to fruition under its most famous President, Mr. McNamara who introduced the Structural and Sectoral Adjustment loans in 1970's. The element of conditionality was emerging though authors like Payer hold that "such conditionality which became a contentious issue in the 1970's and afterwards was present in the very first loans that the Bank made to Chile and other Latin American countries in late 1940's."[5]

The Bank under McNamara during 1968-1982 acquired its new avatar of poverty alleviation under what it famously argued as fulfillment of 'basic needs' of the people. Significantly, it was under McNamara that a huge expansion in borrowing and lending capacities of the Bank was witnessed along with moderate conditionality. McNamara's characterisation of Third World State and poverty at the famous Nairobi speech of 1973 is worth quoting:

"a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities... a condition of life so limited as to prevent realization of potential of the genes with which one is born; a condition of life so degrading as to insult human dignity - and yet a condition of life to common as to the lot of some 40% of the people of developing countries."[6]

It is obvious that McNamara referred to the Third World poverty and whose removal became the major concern of the Bank. Towards this McNamara introduced structural and sectoral adjustment programs and loans that henceforth became the Bank's preferred line and cure for all development problems of Third World states. Bank's aid was made conditional on structural changes towards a better environment for foreign direct investment and private enterprise as well as a reduced state role in the economy. Another innovation of McNamara was that the Bank stepped out of its office for the first time into the territory of member states to find projects as well as to observe, evaluate a country's economic policies and to suggest necessary recommendations towards change. The mediums for this were the Bank squad of economists, experts, lawyers etc., who visited countries. Subsequently, an expansion was witnessed on Bank's activities. In its entire 22 years of pre McNamara existence, the Bank had lent around $ 10.7 billion. But under McNamara's first term, it lent $ 13.4 billion between 1968-73 itself! The advantages and disadvantages for the country concerned were hardly relevant in the Bank's effort towards meeting target numbers.

Though dedicated to the cause of poverty alleviation the Bank refused to aid the democratically elected Allende government in Chile that actually sought to reform the social sector and condition of the poor. As Payer observes, it was U.S. pressure that lead to Bank stopping its aid to Chile as it was not accepting the policy conditionalities that wanted a reduced role of the state and full freedom to the market. After a right wing led military coup replaced Allende government in 1973, the Bank and IMF moved quickly to resume aid citing "substantial progress in overcoming the country's economic problem are being made by the new regime."[7]

The power of aid was thus realised by the Bank and also the political significance of its usage. Bank's operations reflected this and became a major tool of leverage in its functions. The policy based lending became the governing criteria after McNamara left the Bank. These meant a set of policy conditionalities to be adopted by the aid desiring state towards a redefinition of the role of state itself.

The next phase between 1982-92 has been famously called as that of 'Washington Consensus' that was primarily a new look at the project of economic development, the methodology and the role of state in it. The emphasis of the Bank was to correct earlier policy errors and to evolve a definite framework of state-market positions in economic development. Washington consensus, S. Guhan notes, included as principal ingredients, fiscal consolidation, reduction and redistribution of public expenditures, the reform and reduction of taxes, the maintenance of competitive exchange rates, financial, trade and investment liberalisation, overall deregulation and the privatisation of state owned enterprises.[8] All these in simple terms meant a total 'rolling back of the state.' It is relevant to mention here that the new vision of Bank coincided with the dominant viewpoint in the West especially during 1980's, which was illustrated in the first chapter. It could be claimed that the concern of World Bank mirrored the happenings in the western developed states.

The Bank therefore through its policy pronouncements sought a total revision of State's role in economic development. The Report of 1983 put forward Bank's view that the state should reassess priorities and reinvent itself as a regulator and give maximum space to private initiative as "today there is a widespread realisation that economic activities are highly productive when left to private enterprise."[9]

The report of 1991 dwelled on the 'challenges to development' and the position of the state in it. It declared that "consensus is gradually emerging in favour of a market friendly approach to development." Moreover, "approach to development that seems to have worked most reliably and which seems to offer most promise suggests a total reappraisal of the respective roles of state and market."[10]

As Joseph Stiglitz, chief economist of World Bank stated in a lecture "the Washington Consensus policies were based on a rejection of the state's activist role and promotion of a minimal non-interventionist state, the unspoken premise being that state is worse then markets".[11] During this lecture itself, he pronounced the policy of the Bank for the future that was a remarkable shift in its emphasis and conception - the post Washington consensus.

The Bank era of 1992 onwards saw the emphasis of the Bank shifting to institution building, good governance, social spending, civil society. The report of 1997 titled 'State in a changing world' was a testimonial to the Bank's realisation that though there is a need to reassess the role of state but such reassessment shouldn't negate the state itself. The report acknowledged that even stateless development strategies have failed. World Bank thus deviated from its earlier position conceptually by stressing for the need to "match state's role to its capability" and acknowledging the importance of State in Third World development.[12] However in its operations, the Bank continued to be dogmatic in its advocacy of rolling back overextended states, vitality of privatization and to limit the role of state to a regulator of the economy rather than a direct provider.

This overview of Bank's policy stance and the changes in it has put forward the view that the Bank's conception of the role of state has changed towards advocating a minimal state and free market economy as the organisational paradigm of Third World societies. That this shift in Bank's view coincides with the growing emphasis on free markets and minimal states in western developed states like U.S. and U.K. during the period of Reagan and Thatcher is more than a chance happening. This gives credence to the claim laid in the first chapter that Bank operations mirror the concern and influence of western capitalist states towards Third World development. Further, it also confirms the view that there can be no practice without a theory. If the Bank embodies the 'practical', then its theory lies in the West.

This is because as Susan George and Fabrizio Sabelli state, "the Bank did not invent neo-classical economics, liberalism, free market orthodoxy or whatever one cares to call this doctrine. It did not even invent the notion that the doctrine works in all places and at all times, regardless of the historical and social context and the relationship and inequalities between nations. The Bank was however, the first (along with IMF) to put this doctrine into 'practice' and to convince most of its contemporaries that the greatest good for the greatest number will necessarily emerge from its adoption, voluntarily if possible; if not, then under duress."[13]

The Bank thus reduced the available choices for the Third World states to one. There is no alternative (TINA); all states are bound by a single, compulsory truth that shall be recognized. The truth is salvation of people through integration with free market. Bank's policies, conditionalities, its usage of aid power thus mirrored this conception. Towards evolving this uniform conception in all parts of the world, especially the Third World, the Bank tied conditionalities to its aid and effectively used its power of leverage towards this end to obtain structures and policies in member states that conform and perform to Bank's conception towards development. The next section dwells on this issue of aid and conditionalities of Bank.

II. AID AND CONDITIONALITY

The Third World societies having secured their independence however faced a debilitating crisis. This was the lack of secure foundations, fragile institutions, and economic dependency on other countries, underdevelopment, and infrastructural incapacities to give a foundation to indigenous strategies of development. To assist the overcoming of these problems financial institutions like the World Bank came ahead with aid. With regard to Third World development the World Bank envisioned a rosy picture of future in which its aids and loans would bring economic growth to its borrowers, making their citizens prosperous and reinforce global prosperity towards creation of a lasting peace. As Catherine Caufield suggests the Bank had the key assumption called underdevelopment and virtually every state of

Asia, Africa and Latin America suffering from it. According to this vision of Bank, scores of distinct nations, thousands of regional and local cultures are indistinguishable and myriad's of social and economic and political problems are merely aspects of a single global crisis which needed the Bank's uniform remedy called 'development'.[14]

This became the operational principle of the Bank, as it believed that development is the most important challenge facing human race. Therefore, since 1970's specifically, the Bank and the IMF became deeply involved with the development of poor states of the Third World. The Bank's role was shaped by the rise of neo-liberal (New Right) model of development in the West that shifted the focus to a free market approach with a minimum role of state in development. "The emergence of New Right", states Baskar Vashee, "that was the official policy of Reagan and Thatcher and other western states was an ideological shift that permeated international dialogue on development. Post colonial state under this was 'described as a parasite on society, repressive and obstructionist and the failure on the front of development got linked to all this. However, the crucial shift was the conversion of the World Bank and the IMF to the free market ideology instigated by Reagan and supported by European powers."[15] The Bank therefore shifted its strategy with regard to Third World development. By 1970's it became involved in all sectors of the Third World economy and related its concern with the general economic policies of the aid receiving country.

Towards development the Bank provided aid and moreover to support this particular strategy of development based on free market and minimal state came the phase of conditional aid or aid linked to the acceptance of a policy framework laid out by the Bank. To this end, if suspension or withdrawal of aid was used once by the Bank punitively, since 1970's it is sought to be obtained through conditionalities that leave the territory of 'economics' and enter into that of 'politics'. The Bank undertook a total revision of its economic orthodoxy thereby linking its aid to various conditionalities heralding the 'conditionality era'. Aid from World Bank since 1970's came to be linked with Third World state's acceptance of structural adjustment programme (SAP) that sought to fundamentally alter the structure and institutions of the recipient countries.

They included:

a. Devaluation of National Currency and liberalisation of trade.

b. Reduction in state budget expenditure.

c. Reduction in the role of state by means of privatisation as well as closure of state owned enterprise.

d. Reducing the public sector sphere.

For the Third World this was a new internal political order: economic liberalisation, privatisation, opening to world market, providing access to domestic markets to multi-national corporations and weakening and reduction of sphere of state intervention. These policy decisions were not taken by states themselves but came as a conditional package for assuring continuos aid from World Bank and IMF that served as the executive arm of the policies of the western capitalist states.

Most of the Third World countries had adopted a socialist path of development thereby avoiding any extremes. However, as James Morris states, "with respect to Third World development, it can be hardly denied that inextricably linked with World Bank's attitude was a conviction that capitalism was the right way, that private enterprise was the best and as a rule of thumb dogma, the less state interference in the economy, the better."[16]

The application of such a dogma to Third World states that had different socio-politico-economic arrangements resulted in negative consequences as seen in the crisis of 1970's throughout the Latin American continent. As Richard J. Holton observes, "the World Bank and the IMF came under severe criticism for their bias towards western interests and towards liberal market oriented economic policies. The conditionality structures that the Bank attached to its aid were both economically destabilising and quasi-colonialist in its overriding of national priorities."[17] These are not hollow claims or allegations. The working principles, conditionality structures, their application in Third World states by the Bank has had led to negative results. These have been studied extensively and documented by authors like, Susan George, Teresa Hayter, Cheryl Payer and others.

Hayter in her study of 4 Latin American countries namely, Colombia, Chile, Brazil and Peru has analysed the application of the World Bank's principles of operation, including its conditionalities. She has asserted that the Bank uses its power of aid to build up social and economic systems considered to be durable and resistant to revolutionary changes. The existence and operation of World Bank aid is but an attempt to preserve and promote the capitalist system in the Third World and to obstruct and destroy any kind of socialistic nationalist policies that were the foundations of the organisation and emergence of these states as free independent entities. The policies of the Bank is therefore, Hayter argues, an extension of the foreign policies of the western capitalist states that use the power of aid through Bank and IMF to subordinate the Third World states in the world capitalist system.[18]

Latin American countries, inspite of their abundant resources, are largely dependent on U.S.A. for trade and the persistence of high rates of unemployment, frequent financial crises such as in Brazil, low rates of growth, all point out to the fact that the Bank's application of its aid and conditionality has not well served the purpose for these Third World states. The Bank's usage of aid and conditionalities has not produced the desired results. A very important question is that how does the Bank use 'aid' in relation to Third World states? There are 3 ways:

1. It can fail to agree with a government and decide that its policies are so unsatisfactory that it provides no aid or stops or reduces existing aid.
2. It can agree with the government and merely provide aid to carry out its policies suggesting modifications and improvements.
3. It can change the policies by supporting dissenting voices within that country to provide what it calls 'economic realism.'

For the Bank, aid was an instrument that could be used effectively to usher development anywhere in the world under the conditions of its policy framework. No wonder that this blind belief made it ignore the recommendations and findings of the Pearson Commission constituted in 1969 by the Bank itself to put the case for more development lending. The Commission's main conclusion was that:

"The correlation between the amounts of aid received in the past decades and economic growth performance is very weak."[19]

On the other hand the correlation is negative inspite of huge aid being pumped into the Third World states. For the Bank, numbers and figures matter. We should give some numbers then. In the year 1994 developing countries received $ 167.8 billion as aid and paid out to the developed world $ 169.5 billion as debt service - a net transfer from the poor to rich of $ 1.7 billion! In 1948 the United Nations had estimated the per capita income of developing countries to be around $ 100 and of US to be $ 1600. In 1993 the figure stood at $ 1100 and $ 25000 respectively.[20] The efforts of the development community of the West and their official executive arm, the Bank has furthered the dependency of the Third World.

Catherine Caufield in her study refers to the figures provided by the Bank before raising a very important question. The figures are like this: out of 4.5 billion people in developing countries, 1 billion lack clean water, 2 billion lack sanitation facilities, 100 million girls are kept out of the school and nearly 8 million children die every year due to polluted air (chief source being the West), dirty water and easily preventable diseases. As of today the Bank states, 1.3 billion of world population (with more than 90% in the developing states) lives in abject poverty. The question is why is it that even after 50 years of its glorious existence and operations, trillions of dollars of investment, has the Bank not been able to address this malaise of Third World states. Why is it that the functional vocabulary of the Bank that contains, conditionality structure, liberalisation, privatisation etc. has been ineffective? When put to Bank, its answer blames the policies and framework of the developing countries for all this. True that a part of the blame lies with the state themselves. But does this give a clean chit to the Bank. No, because when one looks at the policies of Bank, it is evident that they are also to be blamed since they are for ideological reasons dismantling that one institution known as state and removing from its domain some of its most important classical functions of being a provider of first order.

As Baskar Vashee states, "state is important for the survival of millions in Third World for no other institution can look after their welfare and as they are already under classed in market positions. The redrawing of state sphere through conditional aid and policy conditionalities of the Bank, has caused a deep impact on the social sector, and functioning of the state itself, as more area is being taken by the privileged ones in market situation."[21]

Moreover in this whole process, at times, the Bank excludes Third World parliamentarians and heads of states from the decision making process and quite often the latter don't have access to information. What they are rather provided is a plan to fundamentally alter the existing state structure in order to ensure continuous aid. These programs have been imposed on Third World states with a 'take it or leave it and suffer' criteria that leaves no room but to accept such programmes. However in all these the Bank and its money are protected in a structured way. The Bank has been successful in having its cake and eating it too when it comes to development funding for the Third World states. It preaches market theology on one hand while misreading constantly the market as well as avoiding the consequences of such misreadings. The Bank (with the IMF) automatically stand first in line for all repayments by all countries because their global credit ratings depends on the states honouring their payments to these Bretton Woods institutions. For these reasons the Bank inspite of its false prophecies virtually cannot go bankrupt. Because of its political power, it need not fear the market. Yet the Bank with its special non-market features has grown enormously. From 1988-1991 its surplus was to the tune of 1 billion dollars annually. By 1994 its earning were a tidy $ 14 billion.[22] Whatever be the condition of the Third World (poor people and poor states) the Bank is not giving part of this stockpile to UNICEF or using it to write off its African loans. Underlying the plethora of specific conditionalities of the Bank, there are a few major objectives:

I. Opening a closed or protected economy to world market forces.

II. Realigning prices within the economy to correspond to world market prices, getting prices right.

III. Privatization of government enterprise.

IV. Reduction in labor's share in national income.[23]

The World Bank conditionality aid sought to thus shatter the post war dominant state-led development paradigm in Third World states and sought to promote open and free competitive market economies supervised by minimal states. Leftwich locates four main reasons for such a project:

I. Experiments with structural adjustment lending.

II. Resurgence of Neo-liberalism in west.

III. Collapse of official communist regimes.

IV. Rise of pro-democracy movements in developing countries.

Together these 4 influences have moulded Bank's operations and through measures like 'adjustment' it entered the area of 'political' under the garb of a technicist explanation. Adjustment is political for no significant change occurs in a society without destabilising some status quo, without eroding some interests and promoting others. Those who stand to lose from adjustment and other Bank conditionalities were often located in state apparatuses and those who were benefitting were the already privileged ones.[24]

It is relevant to highlight here that though the Bank claimed to maintain distinction between politics and economics (as reflected in chapter I) but in operation, its philosophy, policies, conditionalities that it imposes on Third World states, it comes out of the 'economic' into the 'political'. The 'political' in Bank's operations have been succinctly located by authors like Hayter, Hippler, Leftwich, Susan George when they place the Bank with its aid and conditionalities within the paradigm of development and democracy advocated by the western developed states for the Third World. The new orthodoxy assumed that democracy can be inserted at almost any stage of development process in any state whether Chile, Russia, Rwanda irrespective of the state's existing political structure, economic conditions etc. This it assumed will enhance and increase development. It puts politics at the core of development and makes development the case study for politics, something that Bank negates in theory but does in practice.

What the Bank forgot was that development is not a matter of GNP, or money or physical capital, or forex, but of the capacity of a society to tap the root of popular creativity, to free up, empower people to exercise their intelligence and their individual and collective efforts to achieve a better life. Development for that matter consists in the creation of capabilities and opportunities so that an educated and literate population can contribute towards national development.

Ignoring all these, the Bank has carved a role for itself. It involved itself in Bosnia, Middle East acting as a lender and adviser in framing of policies. It uses its power of aid to enthrall and captivate all within its paradigm. South Africa in 1992 under Mandela gave a bolt to the Bank by refusing steadfastly to its aid overtures. India on the other hand in 1991 chose to become a part of that paradigm. The Bank's quest for power through its aid continues unabated. In 1994 it made an unsuccessful attempt to take over the world's largest seed bank which are the repositories for the earth's plant genetic resources and the hubs of researches into new crop varieties. As Jessica Mathews of the World Resources Institute voices:

"The Bank may one day be pushed or move itself into a new role as a conservator for failed nation-states... or small states unable to shoulder the full burden of statehood.[25]

It is this that is the objective of Bank's policies, conditionalities, power of aid when it comes to Third World development.

The reference to the Central Asian states in the first chapter reflects to a limited extent the above. Caught in the pains of transition after independence, they have entered the Bank's paradigm along with some African and Latin American states. Bank policies and conditionalities under influence of the western states have assiduously shifted the focus towards a free market approach and a minimal state. Its operations have made Third World states (Central Asian states as shown) the new markets for the western developed states through the operation of multinational and transnational corporations that increasingly encroach on state sovereignty. It could be called as neo-colonialism undertaken by the West, the Bank being the executive arm.

Bank's power of persuasion and aid are great for it has eroded borrowers power by a universal conviction of it being the best and the last resort. Though many see it as positive, the overwhelming viewpoint expresses concern over the international dependency that Bank is creating for Third World states that have been and still are a permanent underclass of nations that have lost much of their self reliance and respect due to dependence on aid.

However since the late 1980's there has been a retreat from the neo-classical paradigm of over-emphasis on free markets. A greater recognition of the possibility (probability) of a market failure and of the related need of state regulation has emerged in a concerted way. The Bank acknowledged that even stateless development has failed as imperfect market conditions negated the law of supply and demand. Therefore, the Bank has sought to reexamine the role of state but within a free market approach emphasising more on the regulatory role of the former rather than being the provider. The Bank has constantly redefined the role of state in Third World economic development. The next section would look at certain key indicators that World Bank has outlined in its conception of role of state. These are very central to Third World for it defines and enumerates the described features of 'State'. Two questions are sought to be answered, firstly, what is the conception of Bank in the present era and secondly, what are the operational implications of the application of this conception for the Third World.

III. STATE, ITS ROLE AND WORLD BANK

A. Good Governance

The first chapter outlined the issue of Bank's emphasis on the criteria of 'good governance' in a member country for receiving aid and realising development. Bank's definition of good governance and its indicators are a defining tool as to how a state should structure its intervention is essential to understand the Bank's conception of role of state.

The World Bank team that visited Moscow in 1992 had two lawyers as its members for evaluating the country's legal institution to determine the constraints to a market economy. It gave legislative recommendations whose acceptance were a prerequisite for future World Bank aid. Russia adopted them as an expression of its seriousness to undertake a shift to market economy from the planned one. The Bank thus asserted that the quality of governance in developing countries is within its jurisdiction. It raised the issue publicly for the first time in its 1989 Report on Africa when it blamed bad governance as cause of African backwardness and underdevelopment.

Therefore, Bank's definition of governance (good) is a comprehensive schema of a state's role and its involvement in the polity. As a basic role for the state, the Bank outlined five fundamental tasks:

I. A legal foundation for the economy.

II. Maintaining a non-distortionary policy environment with macroeconomic stability.

III. Investment in basic social services and infrastructure.

IV. Protecting the vulnerable.

V. Protecting the environment.

To more towards this state, the Bank outlines a specific set of policy reforms that are essential. These have been spelt out in the Washington Consensus and are a package within Bank's conditionalities for funding. They include certain tasks:

I. Fiscal consolidation and reduction of public expenditure.

II. Reform and Reduction of taxes.

III. Maintenance of competitive exchange rates.

IV. Financial, trade and investment liberalization.

V. Deregulation and Privatisation of State enterprise.

Along with these the Bank has outlined a third set of non-economic aspects of governance which it could not ignore or leave out from any reasonable and meaningful conception of governance. These significantly are the concerns of western developed states too. They are:

I. Electoral Democracy

II. Transparency, Accountability, Participation and Responsiveness in the processes of government.

III. Assurance of safety and security to its citizens.

IV. Non-arbitrary rule of law and effective enforcement of contracts

V. Protection of Human Rights and Reduction of military Expenditure.[26]

This is thus the comprehensive picture of governance criteria's that the World Bank has laid out through its reports, policy pronouncements and sought to establish them in aid receiving countries through structural reforms, policy conditionalities etc. Moreover, towards obtaining such a state, the Bank has postulated the post Washington Consensus which according to its chief economist Stiglitz is the use of a broader set of necessary instruments to realise increase in living standards, health and education and not just measured GDP. The Bank seeks democratic and sustainable development along with social equity in benefits of development. By the use of such vocabulary the Bank has robbed its critiques of the very phrases employed to criticize it in the first place. This kind of a conception of the role of state as advocated by the Bank that involves such diverse criteria's from democracy to privatisation has the support and sanction of the western developed states which have found a renewed concern for democracy and development in Third World. However, the contradiction in Bank's policy is highlighted by S. Guhan who states that, "the Bank's endorsement of an open economy is loud and clear but for an open polity, its voice is muted at best and ambiguous at worst."[27] How otherwise could one account for the uninterrupted flow of aid to the undemocratic regimes of Latin America and Africa throughout 1970's and 1980's? Why is it that popularly elected democratic governments with socialist leanings like the one in Chile under Salvador Allende was denied aid under some policy excuse? Aid as Hayter observes has become a political weapon in the hands of the Bank.

The primacy of development is unquestioned but the choice of means and strategies definitely are, more so, if spelled to a state by an external agency. Third World states have to carefully tread the path shown by the Bank and decide judicially the role of state in their respective economy and society. World Bank's renewed look at state's role as well as the overall approach to development in Third World has another component which the Bank declared in its 1997 annual report. This was 'Rethinking the State world over'. It is to this we turn now.

B. RETHINKING THE STATE-WORLD OVER

At the heart of Bank's new conception of the role of state which involves a 'rethinking of the state' itself are four developments which according to the Bank have given impetus to worries and questions about the state's role in economic and social development. They are:

I. Collapse of command and control economies in the former Soviet Union and Central and East Europe.

II. Fiscal crisis of welfare state in most established industrial countries.

III. Important role of State in the 'miracle' economies of East Asia.

IV. Collapse of State and the explosion of humanitarian emergencies in several parts of the world.[28]

The Bank thus claims that both state led and stateless development strategies have failed and with it the idea of state's role in economic and social development should change. Therefore, it becomes essential to rethink the state's role so that its institutional capacity could be refocussed towards achieving what it can. The Bank has provided suggestions towards this:

I. State at all levels of institutional capability should respect, nurture and take advantage of private and voluntary initiative and competitive markets.

II. State should focus on goods that markets cannot provide.

III. States that have weak capacity should focus on being a regulator rather than a provider.

IV. With increase in capabilities the state can take on more competitive initiatives.

As part of 'rethinking' is the rolling back of overextended states along with a commitment to competitive market and privatisation that would realise development on one hand and reduce the burden on state on the other. The rethinking of state has emerged from the crisis of developing countries where state has failed to provide for basic necessities such as health etc. Therefore, the Bank vociferously calls rethinking as a primary task and getting societies to accept such a redefinition of the state's role.[29]However, the Bank recognizes that in order to advance human welfare, the state's capability, defined as the ability to undertake and promote collective actions effectively must be increased and matched with its new role. The basic message translates into a two part strategy to make every state a more creditable, effective partner in its country's development. They are:

I. Matching state's role to its capability

II. To raise state's capability by reinvigorating public institutions.

The Bank articulates that the state need not be the sole provider of goods and services. All that state needs to do is to install an efficient policy and regulatory framework that is open, smooth and transparent. This would pave the way for the free market whose operations would determine the extent of state's intervention. The effectiveness of these processes depends upon the reinvigoration of public institutions by evolving effective rules, restraints, greater competitive pressures and increased citizen participation. Together these shall revitalise state institutions that could then support other forces in the project of development.

The state, according to the Bank, has to be subjected to competition to increase efficiency. This would be enabled by another important task for the state to perform that is to open up and look beyond national borders towards facilitating action in an era of rapid globalization which is threatening weak or capriciously governed states. The state still defines the roles and policies for those within its borders but globalization and international agreements are increasingly affecting state actions. As Holton states "national or state sovereignty today remains intact in an juridical sense but is increasingly conditioned upon compliance with a range of transnational, regulatory regimes.[30]

There is a sense that the fate of all parts of globe is somehow bound together more intensely than before through ties of interdependence and interpenetration of economic, cultural and political relationships across existing borders and boundaries.

State in its new avatar has to act as the intermediary towards integrating itself with this gigantic wave called globalisation by removing all obstacles to the reforms as advocated by the Bank. The Bank offers its 'good offices' in this:

I. By giving advice on what to do and what not to do.

II. By providing a cross-country knowledge on issues.

III. By easing the pains of reforms through aid and grants.

IV. By providing a mechanism by which it would be difficult for countries to back track on reforms.

The people living with ineffective states have long suffered the consequence in terms of postponed growth and social development. Bigger costs would be arriving to states that postpone reforms and rethinking of their role. Therefore, state in Third World has to take into account all these and redefine its role in the development project. Such redefinition should involve small and large steps that would put the economy on an upward path.

The Comprehensive Development Framework (CDF) outlined by the current President of the Bank Mr. James D. Wolfenson takes a complete picture towards development efforts. He states that "the new methodology towards development would involve four partners: the state, the market, civil society and external agencies like Bank-IMF. This would provide a holistic approach to development."[31]

It would be relevant to point out here that with regard to Third World development, the state in this partnership of four, has to decide as well as limit itself to the area assigned to it. This is the basic thrust and outcome of the conception of role of state in Third World development that the World Bank has pronounced. This is the future state according to the Bank that will bring development in Third World and negate the differences between the developed and developing states. Having looked at the conception of the role of state as provided by the Bank as also the framework of the debate that the Bank represents, it becomes essential, firstly, to understand the operational implications of applying (if not already applied) such conception to Third World. Secondly, to provide a complete analysis by way of a comprehensive evaluation and critique to the project being undertaken by the Bank. Lastly, to restore the balance by providing and highlighting the centrality of state to Third World development that would also involve accommodation of those views of the Bank that does offer a positive advantage for Third World. These issues will be addressed in the last chapter.

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CHAPTER IV

NEO-LIBERAL AGENDA OF THE WORLD BANK

A CRITIQUE

The World Bank, having assumed the role of a 'model' provider for the Third World States has become the most influential development finance institution in the world today. As reflected in the previous chapter the Bank has over the years outlined the conception of development as well as the role of the state in it. Before that, it was shown that the Bank's conception was essentially a part of the emergence of Neo-liberal approach in the western world that stressed on democracy and free market worldwide and specifically in the Third World. The Bank applied this conception to the Third World in two ways, firstly, in form of policy advice and recommendations that are expected to be adopted by the Third World States. Secondly, in a more focussed way the Bank through conditionality structures attached to its aid obtains desired changes in the aid receiving countries. Such an attempt on part of the Bank to restructure political and economic systems of the Third World States is grounded in the neo-liberal agenda of the West, the executive arm being the Bank.

As reflected earlier, the Bank has put forward for the Third World, a new political and economic order in which the State has to, firstly, search its relevant space and secondly, function in that allotted space thereby leaving most of the ground for the free market forces. The neo-liberal agenda of the Bank calls for a minimal state, rolling back overextended states in the Third World and total freedom to market. By insisting on democracy, respect for human rights and rule of law, the

Bank has carved for itself, a role of a super-state, one to which the Third World States should pay obedience.

Such is the neo-liberal agenda of the Bank that it asserts: Development in the Third World is possible only within the model provided by the Bank. Aid is an important measure to realise the task of development. Hence to obtain the continuous flow of aid, Third World states have to restructure their national fabric (social, political and economic) in accordance with the framework laid out by the Bank. The poor record of development that has plagued the Third World States till now is thus attributed to the policies pursued in the post second world war era by these states. The major flaw being the over involvement and intervention of the State in the economy that stifled private initiative and led to curtailment of free market forces. The Bank has also claimed that this over extended state was also the cause of obscuring democracy. So the neo-liberal agenda of the Bank emanating from the West since the 1980's, set for itself a central objective to reduce the State to a minimum for ensuring development through the market.

Moreover, the attendant thrust on democratization of the Third World came in the Bank as in its thinking, a causal relation between democracy and development was established as the eternal truth. The 'development first democracy later' model of South East Asian economies was turned around. Adrian Leftwich has traced 4 reasons for this renewed commitment of the western world and the Bank towards democracy and development based on the free market approach in the Third World:

i) Legitimization of Conditionality or leverage as an instrument of policy.

ii) Collapse of Soviet Union and its client States.

iii) Growth of democratic pressures in the developing world.

iv) Ascendancy of neo-liberal theories of political economy in the West.[1]

Neo-liberalism in particular emphasizes on free market, privatization, corporate organization and democratic politics. The position of the Bank emphasizing good governance, a minimal state with free market thus reflected this philosophy that dominated the western political economy. The dominating means to achieve this are aid, leverage and the conditionality structure. Hayter critiques this by stating that, "the policies and process of leverage has become one in which the international agencies attempt to ensure that policies on which they themselves have decided are adopted by aid receiving states of the Third World. The claims of objectivity and of having 'no axe to grind' made especially by the Bank are misleading in to far as they are believed."[2]

The claims that the international funding agencies confine themselves to recommendations of a technical nature and avoids ideological issues is totally invalid. The Bank's polices, when adopted by the Third World states have profound operational implications for the nature and the priorities of the society and are based on values and assumptions that are totally external to these societies and at times sharply conflicting with their values. The Bank has made little effort to discuss the implications and consequences of the adoption of its policies and projects. It has not suggested any alternative approaches or ends. Further, it does not recognize that any alternative approach to development is possible in the post-cold war era that signified the triumph of capitalism to it.

The operational implications of the Bank's conception and application in the Third World are profound and dangerous. They signify a new order of socio-economic and political organization of the society, totally different from what was there in the post-independence priorities. The 'difference' that characterizes the approach towards development in the Third World both in thought and practice has been reflected in the second chapter. It is this 'difference' which is an alternative to Bank's model in the real world that has made the Bank to target it and replace it, through conditionality based structural changes, with its own conception of development and the role of the State in it.

The Bank has sought to transform the structure of the Third World to the requirements of the global economy that is dominated by the developed states. Such is the dominance of the Bank that dependent countries mould their systems to its directives. Latin American States are not in any doubt as to the kind of policies they need to pursue in order to get the aid from the Bank and the IMF as well as the overarching political, military and economic support of the western world. The effects of adoption of the Bank's recommendations are clearly visible and documented. The stabilization programmes supported by the Bank in these countries that adopted the neo-liberal framework have resulted in low or zero rates of growth during the programme period. The Bank policies have perpetuated and sometimes increased the existing inequalities in the distribution of income and power in the Third World. The most severe implication is visible in the social sector cuts that the

Bank has demanded from the states in order to curb public expenditure. The affected sectors include health, education, civil amenities etc. Moreover, the Bank has refused to recognize alternative approaches that have been carried out by States and have worked successfully in these directions.[3]

Third World States that are subjected to the conditionality led structural transformation are in fact becoming an appendage to the developed world in the global capitalist system. This is the most dangerous implication of the Bank's policies that are leading to the strengthening of the forces of neo-colonialism. The West seeks to uphold and promote the existing international and national framework of capitalism. In this, the Bank serves as a medium by making aid conditional on acceptance of free market system. " This kind of a support to capitalism worldwide by the Bank", says Hayter, "emerged from its vested interest against socialist or nationalist policies. The Bank's usage of aid then can be explained only in terms of an attempt to preserve the capitalist system in the Third World".[4]

This is essentially aimed at the conversion of the Third World states to a socio-economic and political structure similar to that of the western developed states. However, that such a conversion through the Bank is not leading to any change in the structure of relations between the two worlds is a visible fact. The demand for a new international economic order (NIEO) since the 1970's as well as the present demand for restructuring the international financial system (Bretton Woods) in order to give equal status to the Third World are in opposition to the structure of dominance and power relations that exists between the developed world and the Third World (developing States).

Totally oblivious of such demands, Third World states are being 'opened up' by the Bank's policies of adjustment. The implication of such measures of the Bank is clearly visible in the case of African States like Somalia.[5] States in the Third World are being forced to accept the Bank's conception and philosophy. Failing this they are deprived of the much needed aid required for undertaking socio-economic transformation. This is dangerous fallout of the operations of the Bank and the IMF in the Third World.

The dominant question that emerges is: Will the Third World States develop within and by such an ideological, political and economic transformation as well as restructuring that is being demanded and undertaken by the Bank? The Bank says yes. So does the West. We say no. The reality is otherwise. The transition of the Third World State led economies to the free market model has produced far greater benefits for the developed world than for the Third World states. Opening up of the markets of the Third World States has provided access to western goods and exports. Moreover, the explosion in the number of multinational corporations (MNC's) that are essentially originating from the western world and are operating in the Third World have given a stranglehold to the West over the Third World. These enterprises through competitive and monopolistic drives are taking over and eliminating indigenous business actors. Their economic influence and political backing from the West assists them in acquiring favourable measures from the Third World States in which they operate. That such a transition has not given the benefits to the Third

World states is illustrated by the growing divide between the developing and the developed world in terms of income, technology, level of poverty, education, health facilities etc. All the blame is squarely placed on the Third World State that is held responsible for such a scenario thus justifying the advocated shift to the free market approach and a minimal state.

The forms of domination have transformed today as direct intervention is no more tolerable and permissible in the present world system. The West therefore, has reinvented itself and forwarded the neo-liberal agenda through the Bank in the form of free market and democracy in the Third World. States that are subjected to this process protest against it and call it as blackmail and insist on their right to determine their own form of governance and development priorities. But the World Bank dominated by the politics of the developed world helps the other half only marginally. The Bank's usage of aid and conditionalities has trapped the Third World States in a two-pronged framework. One props the free market ideology linked with democracy and conditional aid and the other encourages the growth of civil society in form of NGO's, social groups etc that question the State's attempt and authority to undertake socio-economic development. By its conception and application, the Bank is dismantling the State in the Third World. It is exposing the majority of the population that have lived under its shadow, to the forces of free market that by its very logic benefit the rich and privileged and specifically those who have ownership, access and control over productive resources.

Every individual, group or for that matter a state cherishes the twin goals of democracy and development. However, the experience of humanity has shown that the approaches to them could be different with the terms itself having different context specific meanings. This was reflected in the second chapter. In this light, is it moral or ethical to undermine such approaches and impose an external approach in order to realise 'one world'.

The Bank has served as an instrument in this attempt to realise this one world based on capitalism and free market. As reflected in the first chapter the Bank obtains this purpose from the developed world that controls the former. For the Third World, it is a vulnerable exposure to a force that is ignorant of its sensitivities and is restructuring and reestablishing the form, nature and character of the Third World societies. It is essential to meet this challenge and protect the State in the Third World from succumbing to it.

The centrality of the State to Third World development needs to be asserted for State here, unlike in the West, is a part of people's life and has a dominating and crucial presence in it. People in the Third World visualize and work for their development only through the State. That such a relation in which the State is present dominantly has been reduced to 'protectionism', interventionism, over extended state etc., is purely a western construct. Therefore, before asserting the centrality of the State in Third World development, a general critique of the World Bank's ideology, policies and conception would be essential for the present work. This is in addition to the several critiques of the Bank that have already been reflected in the previous chapters. The purpose of the present critique is to locate the contradictions in the Bank's conception and its application.

WORLD BANK'S CONCEPTION AND APPLICATION: A CRITIQUE

The functioning of the Bank with regard to development of the Third World operates in a framework defined and dominated by the interests of the western developed states. The Bank's conception and application are thus rooted essentially in 'politics' and are not merely to be passed off as issues of 'economics', which it vehemently claims. Following what has been argued in the first chapter, the conception of the role of the State held by the Bank could be traced clearly to or having its theoretical basis in the Laissez Faire state of 19th century. Following this, the Bank has advanced free market and free trade with a minimal 'night watchman' State for the Third World.

Moreover, its conception as argued earlier, is rooted in the debate of State versus market that the Bank itself represents with the specific purpose of ensuring the dominance of market over state. Together these qualify the claim of the present work that the Bank since its inception has never been totally concerned with 'economics' only. It has a presence in the domain of 'politics' and has sought to define the type of 'politics' that the Third World states should evolve. This whole approach is rooted in the neo-liberal framework whose normative and functional strands seek to transplant the experience and values of the West (democracy and free market) in the Third World. This presents a clear picture of the operational framework of the Bank.

Secondly, at the level of conception, the Bank's view of the role of the State, which it claims to be purely technical is full of contradictions. Its paradigm of State is based on its attempt to define the type of political and economic arrangement it seeks in the Third World. The Bank's conception is a State which not only 'governs the least', but, regardless of its character, also is one which is 'administered the best'. Its conception of the role of State does not amount to much more than an updating of the minimal nightwatchman State of the 19th century. As S. Guhan states, " the ideological blueprint of the Bank leaves out redistribution and industrialization, two major concerns of the Third World States. The role within which the Bank seeks to confine the State in the Third World is not ethically acceptable and politically suitable for the Third World states that have high poverty and inequality."[6]

Thirdly, the Bank's conception of State versus market, in the structural transformation process shows an inherent contradiction. This lies in the fact that it expects that a politically strong state would be willing to shrink its role as an economic agent or conversely, that a state which is willing to retreat from an interventionist role in the economy will find it politically feasible to do so. The Indian example is relevant here. Though the consequences of a rolling back of the State are yet to be seen, but the preliminary effects on the social sector in forms of cuts and lesser budgetary allocation have produced public outcry and protest.

In face of such a dilemma, the Bank, in its World Development Report of 1997 (as shown in the last chapter) has advised a two step strategy for the State, firstly, to match its role to its capability and secondly, to improve its capability by reinvigorating public institutions. This advise, ironically, puts the cart before the horse, for it is precisely early in the adjustment process that the State has to be central and later on with markets assuming an expanded role, the State can logically afford to wane. The Bank's conception as well as policy advise are, therefore full of contradictions and need to be strongly rejected by the Third World.

Fourthly, at the level of ideology, Hippler states that, "historically speaking, the goal of the North (developed states) was to control the South (Third World) and extend the Northern way of socio-economic and political organization of life, whether for altruistic or for imperialistic purposes. At the end of the 20th century, nothing much has changed".[7] The interests of the developed world have become much stronger in the Third World, especially in the post independence period, towards maintaining the structure of domination in new ways. The effort has been to prevent the Third World States to reach the position of the western developed States, be it in the area of development or acquisition of weapons of mass destruction. The Bank after the end of cold war, has become an important medium for the West to exercise its power and domination over the Third World by not allowing the latter to exercise its independence in form of a choice, whether pertaining to the form or philosophy of development.

Fifthly, at the level of application, the evidence that has accumulated since the 1980's on the consequences of World Bank's prescriptions as applied in Latin America and Africa have shown that its efficacy is far from being conclusive. Two sets of important exceptions clearly undermine the Bank's orthodoxy with regard to the Third World. Firstly, the East Asian economic successes were often portrayed as fine examples of Bank's prescriptions. However, closer scrutiny demonstrated that their policy pattern hardly fitted into the neo-liberal model that the Bank advocated. Rather it was a strong and interventionist State (termed as 'authoritarian'), a substantial public sector that were operational thus spelling out a case against the Bank's policy prescriptions. Secondly, at purely application level, a source of greater embarrassment for the Bank was a set of countries that were apparent failures. These were the economies of Chile, Argentina and Uruguay. Under the Bank and IMF supervision these countries applied the dictated policies in late 1970's and as a consequence suffered economic collapse in early 1980's, very much against the claims of the Bank on the efficacy of its model.

Sixthly, it is evident that the Bank has grown with the huge expansion of its lending capacities as well as in its ability to make aid dependent states heed to its prescriptions. This gives it the leverage and power to impose what it thinks is right. However, reaction to this abnormal growth has been critical. As Catherine Caulfield states, "many individuals, groups, environmental and non-governmental organizations and leaders have expressed concern as well as opposition over the international dependency that this expansion of the Bank is aggravating and is creating a permanent underclass of nations that have lost their self reliance due to dependence on the Bank's aid. Ironically, the Bank agrees to it and concedes that external agencies and assistance can weaken the resolve of States to tackle developmental problems."[8]

The highest point of dependency is visible in that the Third World States today are taking aid and loans from the Bank to repay or service their earlier debts to the Bank! As mentioned earlier, the Bank refuses to write off its African debts which these poor countries can hardly pay, from the massive profits which the Bank itself has posted by lending to these countries. The Bank, therefore, has shown that it is a profit oriented corporate enterprise and not a development finance institution with poverty alleviation as its essential aim.

Seventhly, in league with the West, the Bank stands as the chief protagonist of democratization of the Third World. Its consistent claim is that it seeks democratic order with rule of law and respect for human rights. This would enable the Third World States to effectively utilise their resources as well as aid from the Bank to ensure development. While insisting on democratic ideals as prerequisites for aid the Bank ironically, through out its existence, has given aid to undemocratic and authoritarian regimes that had the least respect for democratic values. That this flow of aid was under U.S. directives is highlighted by Noam Chomsky who states that, "the U.S. sought to maintain the basic order of quite undemocratic states and to avoid populist based changes that might upset established economic and political order and open a leftist direction.[9]

It is our assertion that the Bank also operates on the same principles while providing aid to the Third World States. Its stoppage of aid to Allende government in Chile that was democratically elected and had a socialist orientation illustrates the above assertion.

Lastly, as stated in the previous chapter, the functioning of the Bank is within the framework of globalization that is the unifying force of the 21st century based on free market philosophy. Globalization ignores and overrides national differences and borders and is essentially relevant to understand the implications for the Third World. The Bank's conception of the role of the State in the future era is based on three pre-requisites namely deregulation, privatization, and liberalization. That these are the stepping stones for a State towards globalization is advocated by the Bank. Hence the conception and role of the State that the Bank advocates are aimed towards a system in which national territories would be meaningless in matters of economy and trade. However, as Nirmala Lakshman states, "globalization has created inequalities and has widened the existing gulf between the rich and the poor. This gap is growing inspite of the developmental effort of the Bank."[10]

A pointer to this is that the Human Development Report of 1997 showed that 20% of the world's people in the highest income countries account for 86% of total private consumption expenditure. On the other hand, over a billion people are deprived of basic consumption needs like water, sanitation, health care, education and food security. Globalization is in fact deepening these deprivations as it is biased towards the privileged sections of the society. Don't these facts demand a critical review of the Bank's policies that promote globalization as the future order of the world?

Resistance, even though feeble, has emerged to this in form of mobilization in the Third World states against the monolithic economic approaches and development models forwarded by the Bank that are oblivious to the local community's culture and values. One glaring successful resistance is the Narmada Bachao Andolan (NBA) in India that forced the Bank to pull out of a mega project for the first time in its existence due to massive public outcry over impending environmental damage and displacement of communities. This illustrates the fact that exclusionary development practices of the Bank within the globalization framework, which itself is exclusive in showering benefits on the rich thereby marginalizing the poor, have to be opposed and rejected.

This completes the critique of the neo-liberal agenda of the Bank with regard to the Third World development. To state briefly, the Bank has sought to impose the western model of development, based on democracy and free market, on the Third World. It has ignored the socio-economic and political-cultural specificities of these states that are very different from the western societies. To realize its conception, the Bank uses its aid, leverage and conditionalities. The Bank's conception, policies and application have been exposed to searching critiques and reviews from different people and groups etc. Its own established commissions have reflected negatively on its policies. All these have had an impact on the Bank's thought processes, for it has for the first time attempted to listen to its critiques and reform, though marginally.

After a meeting of the President of the Bank and religious leaders from all over the world in London in February 1998, the Bank agreed to explore vital questions about the definition of successful development, bearing in mind, the importance of religious, cultural, social and environmental aspects of a society's long term well being. Development experts have described this as a major policy change in the Bank. The Bank for the first time accepted that development is not merely an economic issue but also a cultural, social and political issue.[11]

Further, there is a strong view within the Bank that the current phase of reorienting Bank policies and perspectives should genuinely reflect the interests of the Third World States and should prevail above narrow western interests. The Bank, it is argued, if it wants to be a major player in the globalizing world, has to go beyond the rhetoric of reform, transformation, free market and adjustment and address basic issues of economic inequity, both at the national and the international levels. These are very miniscule attempts at correcting the 50 years of errors on which the Bank has built its empire. The basic flaw is that it continues to be dogmatic in its approach and conception and fails to recognize alternative approaches to development with different ideological basis and comparatively good results.

The insistence of the Bank on more freedom to market forces, space to private initiative, cutting public deficits are all steps that the Third World State should include in their national framework, for these would increase efficiency and promote participation towards development. However what needs to be scuttled and totally rejected is the attempt of the Bank to weaken and dismantle that one institution that has the capacity, responsibility and representativeness to undertake the task of providing development to its people; the State.

As Baskar Vashee states, " the State is important for the survival of millions of people of the Third World for there is no other institution here that can look after their development and welfare."[12] Certainly not the market with its unpredictable imperfections. If the Bank's conception is accepted, the State that would be left in the Third World would be the police, army and a skeletal regulatory body. This is the chief objective of the West towards ensuring the continuation of the relation of dominance over the Third World. The Bank thus serves as the executive arm in this reinvented process that could be called as neo-colonialism. All these then leads to the atomization of the Third World State which then confronts the dominant powers of the West and institutions like the Bank as an object and not as an active, self defining and autonomous subject.

What is the alternative before the people of the Third World in the present unequal system of the world? How can they resist these vested drives and claim an equal position in the global relations between the developed and the Third World states?

Without any hesitation, we can say that, this would be achieved only when the 'centrality' of the State in the Third World in matters of political, social and economic development is unambiguously and strongly asserted. This is because the State in the West today is looked upon as an artificial institution. However, in the Third World, it is seen as an extension of the individual, family and communities that constitute the State. It is the State on which the people have put their expectations since independence as well as given it a representativeness and legitimacy to think, act and decide on their behalf. Therefore, for any development in the Third World, the centrality of the State is asserted and needs to be preserved from any threat, be it the West or the Bank.

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1. Adrian Leftwich (ed.), Democracy and Development, Cambridge, Polity Press, 1990, pp.10-14.
2. Teresa Hayter, Aid as Imperialism, Harmondsworth, Penguin Books, 1971, pp.150-151
3. The Cuban Revolution is a glaring example of this. Inspite of continuos economic blockade of the U.S.A. and the absence of aid from the Bank and the IMF, Cuba through its approach of State led development has provided yet another alternative path. Cuban State has been highly successful in providing minimum wages, elimination of illiteracy, provision of primary and secondary education, modern methods of teaching at college level, agriculture modernization and full employment. The most significant achievement of the Cuban State is in the social field, in much greater equality and abolition of hierarchical and oppressive relationships, in the degree of participation of the people, political and cultural awareness of the population. The Cuban Path thus reflects the 'difference' as well as the 'alternative'. For a detailed explanation, see Teresa Hayter, 1971, op.cit.
4. Ibid., pp.8-9.
5. Somalia bowed down to the Bank's and the IMF's conditionalities of structural adjustment in the early 1980's in order to meet its foreign debts and domestic economic crisis. Cuts were imposed on health, food and education sectors along with massive cuts in public sector jobs and closure of State enterprises. The drastic result of these was the civil war that has plagued the African country. It illustrates the eventuality that happens when the Bank's conception and philosophy is applied to a poor country of the Third World. For a detailed explanation, refer to the section titled World Bank and Structural Adjustment in World Bank and India, New Delhi, Public Interest Research Group (PIRG), 1995.
6. Evans (1992), in S. Guhan, "World Bank on Governance, A critique" Economic and Political Weekly, Jan 29, 1998, p.187.
7. Jochen Hippler (ed.), The DEMOCRATISATION of DISEMPOWERMENT, The Problem of Democracy in the Third World, London, Pluto Press, 1995, pp. 5-6.
8. Catherine Caufield, Masters of Illusion, The World Bank and The Poverty of Nations, London, Macmillan Press Limited, 1997, p.337.
9. Noam Chomsky, Powers and Prospects, Reflections on Human Nature and the Social Order, Delhi, Madhyam Publications, 1996, p.109.
10. Nirmala Lakshman, "New Initiatives for Development", The Hindu Magazine, May23, 1999, P-I.
11 "World Bank turns spiritual; adopts new image", IPS, Pioneer, 24 February 1998.
12 Basker Vashee, "Democracy and Development in the 1990's", in Jochen Hippler (ed.), 1995, op.cit, pp.201.

CONCLUSION

The effort of the present study was to put forward the conception of the role of the state in the World Bank as well as the operating framework and basis on which the Bank advocates such a particularistic view of the role of the state for the Third World. Further, the impact and consequences of the adoption of the Bank's conception on the Third World was also reflected upon. The Bank is a leading development finance institution with a massive lending capacity. Therefore, its conception as well as policy measures need to taken seriously. Third World states are the most important area of interest and operation for the Bank. As a chief lender to the Third World states, the Bank is capable of exercising influence, due to the leverage it obtains from the aid dependency of the Third World states. Therefore, its policies, programmes and conditionalities have to be studied from a viewpoint that looks at the impact on the sphere of state activity in the Third World. This has been the central basis of the study.

The Bank has four basic assumptions in its approach towards development. Firstly, development is possible only if the approach is based on the western model and experience. Secondly, it is the operation of the free market system that would ensure speedy development. Thirdly, following from the last point, a minimal state with only regulatory functions is relevant for this development framework and lastly, the ideology of development that the Third World states have to adopt is capitalism. The exercise undertaken in this study substantiates the above. The Bank has consistently adhered to the western model of development and has sought to realise it in the Third World. Towards this, its conception of the role of the state is that of a minimal state, similar to the Laissez Faire model of the 19th century. This serves its purpose as this model is based on total freedom to the market forces, which in turn would promote the advance of capitalism in the Third World. It has imposed its conception on the Third World and tied it to its aid in form of conditionality structures. It is seeking to evolve the western pattern of political and economic organization in the Third World. What it has overlooked is that no matter how much these states may have adopted the western ideas, the truth is that the western model has only been transplanted in an abstract and formal sense and has not really worked in Third World societies. Rather, it has perpetuated the unequal status and dependency that characterises the relation of the developed and the Third World, as reflected in the second chapter.

The 'difference' in the historical, social, economic and political approach of the Third World has also been reflected upon. Moreover, it was shown both at the level of conception and application, that several Third World states had attempted an alternative path to development in the post-independence era and achieved considerably satisfactory results. This approach was based on the ideology of socialism and the Third World version of this sought to usher development together with social equity in these states. That such a choice was suited for these states due to their peculiar social and cultural complexity, extreme poverty and inequality, backwardness and underdevelopment gives credence to the approach as well as to the ideology. Moreover, their experience of the colonial exploitation under imperialist occupation of the West further strengthens their choice of socialism over capitalism, for the latter was the main factor for the two centuries of domination and exploitation which these states suffered. In such circumstances, the role of the state in promoting economic transformation and social change along with equity became very significant. The case of states like India, Brazil, Nigeria etc reflects this. These states shared the difficulty of attempting to develop in a world dominated by the western developed states. Therefore, it was a logical outcome of history that the centrality in the socio-economic transformation process was given to the state. This was at a time when the western developed world had focussed its emphasis on the free market approach. This was a strategic shift, as once the Third World adopted this, then the West would have access to the huge market of the Third World which it could exploit, as its own domestic market was getting saturated. Moreover, this would also serve the purpose of maintaining its dominance over the Third World by catching them in a relation of dependency on western aid as well as products.

The position of Third World states in this world as compared to the developed states is reflective of the relations of dominance and hegemony that the latter exercises over the former. States in the Third World are forced to confront a western monopoly of much of the world's wealth and their economic and technological dependence serves to reproduce this state of affairs. Moreover this is exacerbated by the policies and conditionalities of lending institutions like the World Bank and the IMF that function as an executive arm within this global capitalist framework. Third World states, by insisting on their right to determine the approach towards development, are trying to face the challenge thrown by the ideology driven Bank. However, aid dependency and the failure of the state to undertake development at greater speed alongwith redistribution gives room to the Bank to impose its conception. The case of the Indian State's undertaking of the structural adjustment programme in 1991, under the directions of the Bank and the IMF reflects this, as shown in the second chapter.

If this was not enough, the Bank advanced the argument for the democratization of the Third World by making aid conditional on ensuring democracy. Democracy with its provision of rights, liberties, and articulative space is an ideal that is enshrined in the preamble of many states of the Third World. The orthodoxy of the Bank, however, located a causal link between democracy and development. To fit its advocacy of free market into this, the Bank outlined the essential form of governance in the Third World. The third chapter reflected upon this conception of the Bank. The conception is that of a minimal state, total freedom to market forces, respect for human rights and democracy. All this neatly fits into the neo-liberal approach that has dominated the western developmental philosophy and aid towards Third World. The only task that was left for the Bank was to bring the Third World states into this framework, for direct intervention is not possible in the present era.

The consequences of such an approach towards development are very much visible in the states of Africa and Latin America. The Bank's imposition of its conception has led to increased dependency and rise in foreign debts rather than development and national surplus. Moreover, it has marginalized the already deprived sections within these states because its policies and programmes benefited those who were in a privileged position. Aid from the lending institutions has worked as a medium of extending the neo-imperialist designs of the West in these states. The illustration on the Central Asian States in the first chapter, that have shifted to the free market approach under Bank's direction, reflects the process by which new states are forced to heed to the directives of the Bank in order to receive continuos aid.

Therefore, the study asserts that there can be no development when those who are bearers of the western concern (World Bank and IMF) are themselves part of the structure of neo-imperialism. Any approach, which makes the achievement of development in the Third World states compatible with the maintenance of exploitative relations, furthers dependency, would be a hazardous choice for these states. That this choice is being imposed on them is a sad fact in the present global economy dominated by the developed world. The difference in the positions of the developed and the Third World is a fact. While the former is talking about space age and new millenium, the latter is struggling with the problem of huge debts, backwardness, poverty, instability etc. What then is the choice before the Third World?

We assert here that the Third World has to disengage itself from the framework of international capitalism that is dominated by the West. Secondly, the policies and conception of the Bank have to be rejected as they aim at destroying that one institution which is the only hope of the people; the state. Only when the capacity and opportunities of the people are such that they can compete with efficiency in the free market, a change would be desirable. Even for this, the presence of the state is essential because in an unequal society, where the elite identify themselves with foreign values, appropriate the ownership and benefits of productive resources, free market will deepen the existing divide. The centrality of the state is essential for developing the capacity of the people and to make them competent. Therefore, the unique historical and social complexities that characterise the Third World, unlike the West, gives a dominant position to the state as the central actor. The yardstick for examining the results of state intervention in the Third World, therefore, cannot be the same as that in the West. Further, this cannot be the validating factor for a shift to a free market system, as advocated by the Bank.

Lastly, on the parameter of separating economics from politics, the Bank as reflected in the study has indulged in politics while dealing with the issue of Third World development. As shown in the last chapter, the Bank's advocacy of free market, the nature and consequences of its conditionalities, its impact on the state structure and importantly, its comprehensive definition of good governance are essentially political, and point to the fact that the Bank is in the field of politics. It is trying to shape through its policy measures, the political and economic structure of the Third World, in a way that serves the purpose of the global capitalist framework. This needs to be categorically rejected by the Third World.

Towards the task of development, state autonomy (internal and external) needs to be strengthened and protected from the domination of the western developed states as well as the Bank's conception. Only then the state in the Third World can undertake rapid socio-economic change. Any approach or model of development towards this, therefore, must deal with the issue of 'choice' and the freedom of exercising that choice as well as the methodology rather than remain content with a determinist model of the whole process.

Towards this, the role of the state in the Third World needs to be extricated from the conception of the Bank and restored to the position as determined by the national priorities. This position is that of a socialist approach which was the founding principle of these states. The very fact that the states of Third World gave a socialist orientation to their developmental strategy establishes two key points. Firstly, they were opposed to the exploitative content of capitalism based on free market system that the West symbolized. Secondly, the socialist path was an efficient medium for erasing the vestiges of colonialism as well as to usher development and social equity that were the two founding objectives of the Third World states. It was an independent, rational and logical choice of the Third World and this needs to be protected from all forms of domination and hegemony.

The lost perspective of this choice needs to be restored in the new context of a fast changing and globalizing world order where the values of freedom and autonomy and the exercise of human choice are contending with powerful tendencies towards dominance and uniformity. The other half has to assert its right to determine its approach to any kind of development and the fact that this approach would have an important and central place for the state is the concluding claim of the study.

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