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Laissez Faire, sustainable development and crisis in democracy in the new millennium

Abstract

Extract:

The new millennium, endorsing the paradigm of globalization, has been characterized by the revival of the concept of laissez faire conceived long ago by the French Physiocrats and later on corroborated by the neo-classicists. Karl Marx opposed this view and put forward his concept of socialism (as an interim path towards communism) based on a completely state-controlled centralized economic system. Later on, the mainstream laissez faire view was also challenged by Keynes and his followers who emphasized that State intervention is essential for sustainable development; but to this end, democracy instead of Marxian socialism is the better form of governance and there is no need to abandon the capitalistic mode of production. The newly independent countries after the Second World War, languishing in abject poverty and associated maladies, adopted various prescriptions of socialism and Keynesian economics and endeavoured to modernize their economies through excessive State intervention. The political set ups of these countries were both democratic and dictatorial.

Keywords

economics, sustainable development, laissez faire paradigm, globalization

VIEWPOINT: LAISSEZ FAIRE, SUSTAINABLE DEVELOPMENT AND CRISIS IN DEMOCRACY IN THE NEW MILLENNIUM

by Ratan Lal Basu

INTRODUCTION

The new millennium, endorsing the paradigm of globalization, has been characterized by the revival of the concept of *laissez faire* conceived long ago by the French Physiocrats and later on corroborated by the neo-classicists. Karl Marx opposed this view and put forward his concept of socialism (as an interim path towards communism) based on a completely state-controlled centralized economic system. Later on, the mainstream *laissez faire* view was also challenged by Keynes and his followers who emphasized that State intervention is essential for sustainable development; but to this end, democracy instead of Marxian socialism is the better form of governance and there is no need to abandon the capitalistic mode of production. The newly independent countries after the Second World War, languishing in abject poverty and associated maladies, adopted various prescriptions of socialism and Keynesian economics and endeavoured to modernize their economies through excessive State intervention. The political set ups of these countries were both democratic and dictatorial.

However, during the late twentieth century both the socialist countries and the state-controlled mixed economies came up against serious economic crisis. By early 1990s most of the socialist regimes crumbled and the mixed economies gradually started adopting economic reforms based on LPG (Liberalization, Privatization and Globalization). Thus once again there had been the revival of a *laissez faire* paradigm through market-oriented reforms. But very few of the countries undertaking economic reforms opted for a full-fledged free-market economy and State intervention in various areas such as the social sector remained a common feature for most of these countries. Prominent economists such as Amartya Sen and Joseph Stiglitz also suggested the necessity of the state's role in these areas. In this context the question of the appropriate political form to serve best this role arose. The most widely accepted view is that the economics of a country is inexorably associated with the political set up and in this regard historical experience shows that democracy is the most suitable form of polity for the proper working of the *laissez faire* strategy with State intervention in specific areas. But in most of the Least-Developed Countries (LDCs) like India, political corruption based on the politician-criminal-police nexus has generated the most serious obstacle to sustainable development.

This analysis aims at exploring the causes of such a predicament. The different segments of the article contain the following sub-topics: definition, origin and evolution of the

concept of *laissez faire*; Adam Smith's approach; Marxian alternatives; neo-classical economic theories; the Keynesian alternative; collapse of Keynesianism and socialism; globalization, revival of *laissez faire* and its problems; the comparative efficacy of different forms of governance; the Smithian dilemma and the crisis of democracy

LAISSEZ FAIRE

The exact origin of the French phrase *laissez faire* meaning "let do" or "permit to act" is uncertain and there are various folklores about its origin. The 18th century physiocrats, who popularized the phrase indicating economic liberalism and restriction on government intervention in economic activities, were not unanimous about its origin. Du Pont attributed it to Vincent de Gournay who was a strong advocate of deregulation of industry and removal of restrictions on trade in France. But the other physiocrats had different opinions. (see Higgs 2001, p.38). Later on the phrase was generally used to indicate a doctrine which maintains that private initiative and production should be free from economic interventionism and taxation by the State beyond the minimum requirement to maintain internal administration, security of private property and protection against foreign invasion. In this way the term became synonymous with 'free-market economy' and became a slogan of the economic libertarians.

According to these advocates of *laissez faire*, the free-market economy is superior to any controlled system to ensure sustainable development with equality, social justice and personal freedom. In such a system unrestricted market forces bring about desirable solutions to the basic economic problems, viz. what to produce, how to produce and for whom to produce.

Sometimes the term *laissez faire* became associated with the name of Adam Smith. However, this interpretation has no valid basis. This confusion would be dispelled if we look more closely into the views of Adam Smith.

ADAM SMITH

Adam Smith, the 'father of modern economics', is mistakenly held by many as a proponent of *Laissez Faire*. This confusing idea has its root in partial study of the *Wealth of Nations* and above all ignorance about his earlier philosophical treatise *The Theory of Moral Sentiments*. In particular, his concept of the 'invisible hand' is mixed up with the concepts relevant to libertarianism.

The Smithian metaphor of the 'invisible hand', as used in *Wealth of Nations* and other writings of Smith, implies that in a free market economy if each individual maximizes his own revenue or satisfaction, then the total revenue and satisfaction of the society would be maximized, since the aggregate value for the society as a whole is the sum total of the individual values. An individual in isolation is, however, unaware of the aggregate result. Nor has he any power to directly influence the aggregate. So the mechanism of maximizing the aggregate value is not done by any individual by his own effort and intention. Thus it is conceived as being done by some 'invisible hand'.

Adam Smith categorically mentions the metaphor while asserting that any producer in a country will not employ his capital in foreign trade unless the profits available by that

method far exceed those available locally. This will also be beneficial for the society as a whole. In such a case the individual producer is guided by his self interest without any intention to serve the society, but the self-interest-based decision ultimately serves the society as a whole. Smith also argues in this context that by pursuing his own interest the economic agent frequently promotes that of the society more effectually than when he really intends to promote it. (Smith 1997, Vol. IV Chapter II.9, p477)

Elsewhere Smith vividly explains how the pursuit of self-interest serves the interests of the society as a whole. To quote:

It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (Smith 1776, Vol. I Chapter II.2, p27)

According to many later economists the theory of the invisible hand implies that if each consumer is allowed to choose freely what to buy and each producer is allowed to choose freely what to sell and how to produce it, then the market will settle on a product distribution and prices that are beneficial to the all individual members of a community, and hence to the community as a whole. The reason for this is that greed will drive actors to beneficial behavior. Efficient methods of production will be adopted in order to maximize profits. Low prices will be charged in order to undercut competitors. Investors will invest in those industries that are most urgently needed to maximize returns, and withdraw capital from those that are less efficient in creating value.

Thus the concept of ‘invisible hand’ is at times mixed up with that of *Laissez Faire*. But a serious study of Smith would make it clear that he was by means an advocate of *Laissez Faire*. On the contrary, he opined for State interference in many cases. Smithian views regarding free market system and the capitalists are clear in the following excerpts:

The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public, but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow citizens.

The proposal of any new law or regulation of commerce which comes from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have upon many occasions, both deceived and oppressed it. (Smith 1776, Vol. I Chapter IX, p207)

From the above quotation it is quite clear that Smith had no illusion that the spectacular material progress brought about by unrestrained activities of the capitalists would be an unmixed blessing for the human race as a whole. Apart from historical evidences, Smith put forward a theoretical justification too. On the basis of Smith’s philosophical masterpiece, *The Theory of Moral Sentiments*, the basic sentiments of man can be broadly

divided into two opposite categories: self-interest and fellow feeling. All the major sentiments belonging to either of these two categories are assumed by Smith to be endowed to man by nature. Thus, 'The great division of our affections is into the selfish and the benevolent.' (Smith 1759, VII.II.4).

All human ethics belong to the second category of the Smithian sentiments, viz. 'fellow feeling', and they are likely to have a long history of evolution going down to the association of the lower living beings (wolves, bees, ants etc.). Smith considers that material progress is brought about mainly by the motive of improving one's own condition (a motive belonging to the self-interest category) and in its full manifestation it becomes the dominant sentiment. Thus:

It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invest and improve all the sciences and arts which ennoble and embellish human life, which have entirely changed the whole face of the globe, have turned the rude forests of nature into agreeable and fertile plains, and made the trackless and barren ocean a new fund of subsistence and the great high road of communication to the different nations of the earth. (Ibid. IV.I.10)

However, it '...is the cause of all the tumult and bustle, all the rapine and injustice which avarice and ambition have introduced into this world' (Ibid. I.III.23).

The capitalistic system opens up vast possibilities of betterment of the conditions of the traders and industrialists and in their reckless drive towards achieving higher and higher material gains, all ethical sentiments, fellow feeling and human values are bound to be swept away unless restrained by some outside force.

As regards this outside force, Smith argues that all our notions of moral and ethical senses which as such are helpless in a conflict with self interest may be made effective by converting them into positive laws. The important steps in this regard as described by Smith are:

It is thus the general rules of morality are formed. They are ultimately founded upon experience of what, in particular instances, our moral faculties, our normal sense of merit and propriety, approve or disapprove of. We do not originally approve or condemn particular actions because, upon examination, they appear to be agreeable or consistent with a general rule. The general rule, on the contrary, is formed by finding, from experience that all actions of a certain kind, or circumstanced in a certain manner, are approved or disapproved of. (Ibid. III.I.95)

The general rules of morality can be effective only if they are framed into positive laws of justice:

As the violation of justice is what men will never submit to from one another, the public magistrate is under the necessity of employing the power of the commonwealth to enforce the practice of this virtue. (Ibid. VII.IV.36)

These laws of justice can be framed also to restrain the harmful activities of the 'dealers' (the Smithian term meaning the capitalists and merchants). Smith was by no means an advocate of the '*laissez faire*' doctrine and he, in fact, was in favour of imposing State regulations on the 'class' whose interest, he unequivocally considered, was always opposite to that of the public. This is an effort, though in embryonic form, towards

devising an alternative to the free market capitalism. But here he is confronted with an insurmountable obstacle which we shall take up once again at the concluding section of this article.

THE MARXIAN APPROACH

Marxian theories of the historical process of development of the human society provide strong accounts of the genesis of poverty and inequality. From the economic standpoint, Marx divides the process of development of human society till his time into four major stages: primitive communism, slave society, feudalism and capitalism. He predicts that capitalism would be replaced by socialism, which again will ultimately dissolve into the stage of communism. Marxian process of evolution of human society is being elaborated in various writings of both Karl Marx and his friend and adherent Frederick Engels:

At the first stage, during primitive communism, poverty in the modern sense did not exist (poverty in the modern sense is meaningful only when its opposite, viz. opulence, exists). It was simply limitation of amenities, applicable to all members of a clan, because of limited knowledge to explore natural resources to meet human demand. These clan societies were characterized by equality. Whatever necessities they gathered through their limited command over Nature, were divided among members according to the requirement of each. (Engels 1884, Ch-IX, p.155)

Furthermore:

Man-nature conflict gradually led to improvement in methods of production – man gradually having more and more command over Nature with its increasing knowledge. With acceleration of this process by increasing social division of labour, surplus over and above consumption requirements started emerging. And at the same time human values pertaining to fellow feeling and equality started degenerating into slavery – oppression of one class of people by another. (Ibid. pp. 157-160)

Engels explains how with the emergence of money as the most convenient medium of exchange and the emergence of the parasitic merchant class, the process of property ownership and accumulation of wealth by a few and the consequent poverty and inequality were further crystallized. (Ibid. pp.162-163) This process was then further intensified:

Continued material progress, made possible by increasing command over Nature, ultimately paved the way for the Industrial Revolution, which ushered in the capitalistic or bourgeois society. Capitalism enhanced the pace of materialistic development but at the same time it generated more ruthless exploitation of the labour class turning them into proletariats and mere commodities to be sold to the bourgeoisie, i.e. the capitalists. (Marx and Engels 1848, Ch-1, p. 51)

According to Marx and Engels the basic causes of oppression, exploitation, and increasing poverty and inequality along with material progress were the class society and the institution of private property with the associated vices such as the division of labour, exchange, family structure, competition and the institution of the State. Let us have a brief glimpse of the Marxian view regarding these factors.

Private Property: According to the Marxian world outlook, private property is the basic cause of all maladies in human society. So the task of the communists is to abolish all

private property, which is both cause and consequence of ‘alienated’ or ‘estranged’ labour. Division of labour, competition, exchange, family and all other corrupting elements of society, have originated from private property and estranged labour. (Marx 1974, pp. 61-74). Thus, Marx and Engels assert that the first and foremost task of the communists opting for a society free from exploitation, poverty, inequality and injustice is to abolish the institution of private property, held so sacred by the non-Marxists. (Marx and Engels 1848, p. 63)

Division of Labour and Exchange: Just like private property, the division of labour is considered by Marx and Engels as another evil responsible for all the maladies in human society. Division of labour, according to them, has undermined the collective nature of production, given rise to exchange between individuals and thereby facilitated the process of appropriation of surplus value and economic exploitation. It is nothing but the expression of estranged, alienated positing of human activity. It increases immensely the wealth and refinement of society indeed, but at the same time impoverishes the worker and turns him into a machine. (Marx 1974, pp. 26-27, 113; Engels 1884, p. 171) Abolition of division of labour, Engels assures, would create no problem at all as appropriate education would enable young people to quickly familiarize themselves with the whole system of production and to pass from one branch of production to another in response to the needs of society or their own inclinations. (Engels 1969, pp.93- 94)

Family: Marx considers family to be another serious evil generated from private property relations and evolved through various stages of economic advancement. The origin of family was necessitated by the emergence of agricultural production in the pre-capitalist production relations. With the emergence of capitalistic system the basic necessity for the institution of family being weakened, the family system started degenerating. In the bourgeois society, according to Marx and Engels, although family is still held as a sacred institution, bourgeois family has in reality turned into an instrument of suppression and exploitation of women by men and has degeneration in adultery and prostitution. They opine that among the proletariat, on the other hand, the family in the bourgeois sense is virtually non-existent. So, in a communist society, the family would no longer exist as the basis of its existence, viz. private property, would be non-existent. (Marx and Engels 1848, pp. 68-70)

Engels further emphasizes that abolition of private property would remove the two bases of traditional marriage and family, viz. dependence of women on men and that of children on the parents. And so marriage and family would perish, transforming the relations between the sexes into a purely private matter free from any intervention by the society or the State. (Engels 1969, p.94)

Competition: According to Marxian view, competition, another consequence of private property, has been the propelling force as well as the cause of disorder of bourgeois society. In this connection Marx contradicts the commonly held view that monopoly is opposed to competition and opines that competition and monopoly are but two sides of the same coin. (Marx 1974, p.177 [Appendix]) Competition has, however, its positive side also as it creates condition under which the capitalistic system collapses (Marx 1966, pp. 130-31). The task of the communists is to accentuate this process. This is to be done

through abolition of private property and establishment of the communal ownership of goods. (Engels 1969, p. 89)

The State: According to Marxian view, the State is an institution developed solely to protect the interests of the exploiter minority against that of the exploited majority and to facilitate the process of exploitation (Engels 1884, pp.166-169). So at a certain stage of development of productive forces, when the existence of class division would be not only unnecessary but also a positive hindrance to further advancement of productive forces, classes and along with them the State would disappear, preserved only in the museum of antiquities. (Ibid. p.170)

Transition: Although human society, according to Marx, would automatically bring about communism by the inherent contradictions, but it may take a very long time. So he suggests that this process of transition towards the ultimate goal is to be hastened by means of deliberate effort. Capitalism has already generated the force, viz. the proletariat, which can play a crucial role in accelerating this pace by overthrowing the bourgeois State and establish the socialist State under the dictatorship of the proletariat and thereby pave the path towards communism. The weapon of the proletariat is the same 'class struggle' which has been the driving force of human history ever since the emergence of private property.

Class Struggle: According to the Marxist view, the driving force of human civilization has been the class struggle, the relentless war between the exploiters and the exploited (Marx and Engels 1848, p. 40). This class antagonism, during the capitalist system, has been reduced to the struggle between two distinct classes (Ibid. p. 41). With the expansion of capitalistic production the size and strength of the proletariat working class is continuously increasing and thus from within the capitalistic system a force is born that will ultimately overthrow this system. (Ibid. pp. 50-51) So the first step is to organize the proletariat under the communist party and inspire them to overthrow the bourgeois State and replace it with the socialist State under the dictatorship of the proletariat. (Engels 1975, pp. 326-27)

Unfortunately, Marx and Engels failed to realize (because of either superficial observation or myopic view or parochial attachments) that causes of poverty, inequality, exploitation and similar maladies do not lie in private property, family relations, the state or any other visible phenomenon, but it lies deep in human nature, in unethical elements such as greed, pride, jealousy and so on. Thus, eradication of the maladies, if at all possible, needs to be accomplished by some process that would reduce the prevalence of these basic vices in human mind. Occasionally, however, they have touched upon the real causes of the maladies such as greed, jealousy, etc. (Marx 1974, pp. 62, 88; Engels 1884, p. 173). But these fleeting moments of digression to reality soon dissolved into the preaching of their invented doctrine. The Marxist weapon to overthrow the bourgeois State is the proletariat class, the labour class forced down to the level of bare subsistence. (Marx 1974, p. 61)

It cannot be denied that such a proletariat class had real existence in all the nascent capitalist countries during the time of Marx (the nineteenth century). But with technological advancement during the twentieth century, the scenario changed radically.

The proletarian class, 'who had nothing to lose but chains', in the capitalist countries, gradually diminished in size in course of technological progress during the twentieth century and almost vanished with the onset of the new millennium. The relatively better paid labourers of the modern capitalist countries could hardly be inspired to raise arms against the capitalists, unlike their proletariat brethren a century ago. Moreover, class composition in the modern capitalist countries has become extremely complex with the swelling of various grades of the middle class. This has belied the Marxian conviction that under capitalism the society would be polarized into two distinct classes: capitalists and labourers.

Unfortunately, because of their myopic vision and pre-occupation with invented doctrine, Marx and Engels failed to visualize the future world that capitalism would usher in. So, ultimately, in the real world, Marxism degenerated into Leninism and Maoism, aiming at overthrowing the State by organizing the poverty stricken masses of the feudal and semi-feudal countries. Marx and Engels, however, had dubbed this sort of endeavour as utopian socialism. (Engels 1975 pp. 293, 3003)

Ultimate Goal: The ultimate goal of Marxist process is to achieve communism. But the transition from socialism to communism would be a long historical process. Under communism, there would be no private property, no family, no State, no competition, no division of labour, and no exchange (Marx 1974, p. 91). Even most of the radical Marxists today consider this as sheer utopia.

THE NEO-CLASSICAL APPROACH

Neoclassical economics, a common name for a wide variety of ideas, is conventionally ascribed to William Stanley Jevons (1871), Carl Menger (1871) and Leon Walras (1877) although roots of the theory may be traced in the writings of John Stuart Mill (1848). Later on Alfred Marshall (1890, pp. 269-278) added a new dimension to neo-classical economics by clearly pointing out that both demand and supply, like the two blades of a scissors, play equally important role in determining prices. He explained prices by the intersection of supply and demand curves. In the 20th century, economists such as J. R. Hicks, Joan Robinson, Camberlin, and Paul Samuelson made important contributions to this stream of economic thought and added statistical and mathematical sophistication to treatment of economic concepts.

The three basic premises of neo-classical economics¹ are:

1. Both consumers and producers are rational.
2. Consumers maximize utility and firms maximize profits.
3. People act independently on the basis of full and relevant information.

On the basis of the above basic assumptions, neoclassical economists built a structure to understand the allocation of scarce resources among alternative ends. The basic tasks of

¹ For an analysis of neo-classical economics and its various aspects see [<http://william-king.www.drexel.edu/top/Prin/txt/Neoch/Eco111s1.html>].

an economy (viz. what to produce, how to produce and for whom to produce) are all determined in the market by the interaction of demand and supply without any government intervention.

The neo-classical economists held that at the micro level demand and supply of both final commodities and factors of production are determined through the maximization of satisfaction of the consumer and that of profit of the firm. The type and level of output to be produced (what to produce) and, the input-mix and the technology to be used (how to produce) are all determined by the interplay of demand and supply in the market without any outside intervention. 'For whom to be produced' is also determined in the market on the basis of demand and purchasing power, which is again determined in the factor market.

The neo-classical economists laid most emphasis on micro behaviour of the economic agents as they held that all macro level results could be determined by aggregating micro values.

In brief, neo-classical economics emphasized that for rational allocation and perfect functioning of the economy, a free-market mechanism without government intervention is the best, and thus laid support to the *laissez faire* doctrine. This school of thought dominated mainstream economics till the early 1930s. But the 'great depression' of the 1930s shattered all complacency with the neo-classical economics and resulted in the emergence of Keynesian economics.

THE KEYNESIAN APPROACH

The great depression of the 1930s dealt a heavy blow to neo-classical assertion that all economic problems could be solved through the free-play of the market forces of demand and supply and State intervention in economic activities is unnecessary. In this backdrop, the J. M. Keynes drew the attention of the world by publishing his great treatise: *General Theory on Employment, Interest and Money* (1936) in which he put forward a solution to the anomalies of free market capitalism without any Marxian authoritarian system but advocating State intervention, mainly through fiscal policy within a democratic political system. Thus he appeared as the saviour of capitalism from the crisis predicted by Karl Marx. (Hansen 1953)

In brief, Keynesian economics advocates a mixed economy, in which both the State and the private sector are considered to play an important role. Thus Keynesian approach markedly differs from both *laissez-faire* economic liberalism, which advocates that markets and the private sector operate best without State intervention, and a Marxian approach calling for a centrally controlled economy with no virtual role of the private sector.

Keynes also asserted that aggregate results may not be just the sum total of individual outcomes and therefore micro-economic solutions may not be reflected at the macro level. Here the Keynesian approach radically differs from the micro-based neoclassical approach. Keynes emphasized a general theory in which utilization of resources could be

high or low, whereas neoclassical economists highlighted the particular case of full utilization.

Contradicting the classical and neoclassical emphasis on production and supply, Keynes laid primary emphasis on aggregate demand for goods as the driving force of the economy. From this he argued that government fiscal policies could be used to promote demand at a macro level, to obviate unemployment and deflation as evident during the 1930s. Keynes argued that the government can play a crucial role to stimulate the economy during depression through the combination of reduction of interest rates, tax cuts and enhancement of autonomous investment, especially in infrastructure. Thus, unlike the classical and neoclassical economists, Keynes advocated a deficit budget instead of a balanced or surplus budget during depression.

Keynes vehemently opposed the classical view that there is a strong automatic tendency for output and employment to move toward full employment levels. He argued that because of wage-price inflexibility, once the economy is away from full employment situation, it would not return to full employment automatically and an underemployment equilibrium would be the outcome. Only government intervention, he held, could restore full-employment.

After Keynes, Keynesian analysis was combined with neoclassical economics. This combination, known as ‘the neoclassical synthesis’, dominated mainstream macroeconomic thought till the seventies of the last century (see Goodfriend & King 1998; Mankiw & Romer 1991). In the post-war years Keynesian ideas were widely accepted by many governments as guidelines for framing economic policies. To this end the Hicksian IS-LM model served as the practical guideline for determining actual economic policies (Hicks 1937; IS represents ‘Investment and Saving equilibrium’ while LM refers to ‘Liquidity preference and Money supply equilibrium’). The IS-LM model relates aggregate demand and employment to three exogenous quantities, i.e., the amount of money in circulation, the government budget, and the state of business expectations (Branson 1979, Chapters 4-6).

Another important tool for framing Keynesian policy was the Phillips Curve, which depicted an inverse relation between employment and inflation. By using this mechanism a government can decide which combination of unemployment and inflation would be suitable for the economy concerned (Ibid. Chapter 18).

THE COLLAPSE OF KEYNESIAN ERA AND SOCIALIST REGIMES

Post-war years till the early 1970s saw the upswing of Keynesian economics. But the situation was reversed after the oil shock of 1973. During this period a combination of high inflation and high unemployment (stagflation), contradicting the Phillips Curve concept, called for simultaneous expansionary and contractionary policies if a Keynesian solution was sought, but this was absurd.² This dilemma led to the emergence of monetarism, supply-side economics and new classical economics all indicating a reversal

² For one account see

[http://en.wikipedia.org/wiki/Stagflation#Early_Keynesianism_and_monetarism_and_the_Phillips_curve].

of the Keynesian approach and advocating return of the mixed economies to a more market oriented system.³ All these ushered in the era of liberalization and structural reforms of the mixed economies. In the mean time most of the socialist economies, including their leader the USSR, collapsed and all of them opted for the capitalistic path. (Basu, 1999)

Within a decade or so many countries introduced economic reforms and some of them, including the so-called 'East Asian Tigers', achieved spectacular success after liberalization. This encouraged many other countries such as India to pursue economic liberalization. In the meantime the communication revolution hastened the process of globalization based on liberalization of foreign trade, which was crystallized with the emergence of the World Trade Organization (WTO).

GLOBALIZATION AND ITS HAZARDS

The era of globalization emerged during the 1980s and with the gradual liberalization of most of the socialist and mixed economies it assumed full-fledged form during the 1990s. The spectacular communication revolution, which turned the world almost into a global village, facilitated the process considerably. Along with the Structural Reforms insisted on by the IMF (International Monetary Fund) and the World Bank, the newly established WTO completed the process through its policy of free-trade for all the member countries. In the new era there was a paradigm shift from State control to a market orientation. Thus there had been a revival of the *laissez faire* regime. However, with the passage of time, the new era started revealing very many hazards associated with this process, such as increased unemployment, market failures and increasing inter-nation and intra-nation disparities.

With this backdrop, economists such as Amartya Sen (Drèze & Sen 1989) and Joseph Stiglitz started strongly emphasizing the importance of State intervention in specific areas (Stiglitz 2002 & 2006; Stiglitz *et. al* 2006). Their views received wide acceptance but the question arose as to which form of governance would be most suitable for this purpose. In this context we may briefly undertake a brief comparison of the efficacy of various forms of government.

DIFFERENT FORMS OF GOVERNANCE AND THEIR COMPARATIVE EFFICACY

Dictatorship: Historical experience of all forms of non-socialist dictatorial regimes (in the past and the present) has revealed their overwhelmingly oppressive features.^{4 9}. So we rule out this form as unsuitable.

³ For detail see [<http://pages.stern.nyu.edu/~nroubini/SUPPLY.HTM>] [http://en.wikipedia.org/wiki/Supply-side_economics].

⁴ See Black 1986 and Fitch and Lowenthal (eds.) 1986 for the heinous roles of dictatorial regimes in Latin America. Amitav Ghosh's novel "The Glass Palace" (Ghosh 2001) portrays a vivid account of the oppressive dictatorial regime in Myanmar (Burma).

Monarchy: Ancient Indian Texts (especially Manusmriti and Arthaśāstra of Kautilya)⁵ have laid down detailed rules and procedures to make an ideal king (Basu 2005). Unfortunately, in recorded history, except for Aśoka (Thapar 1961; Sastri 1967, pp.201-48; Kosambi 1981, pp.157-65), there is no evidence of the existence of another ideal king. The great Greek philosopher Plato conceived of a philosopher king (Plato 1901, pp.215-40) as an ideal pattern of government. However, his concept of a ‘philosopher king’ was attacked as during the European enlightenment. Immanuel Kant made the interesting comment: “That ‘kings will philosophize or philosophers become kings,’ is not to be expected. Nor indeed is it to be desired, because the possession of power inevitably corrupts the free judgment of reason.” (Kant 1795). Plato later on abandoned this idea after a bitter experience in attempting to reform the ruler of Syracuse.⁶ So monarchy is ruled out.

Socialism: Like the Indian concept of Ideal King or Plato’s philosopher king, socialism is also a utopian concept. It differs in one respect, viz. unlike the former two concepts the means to achieve its goal is the violent ‘class struggle’. Such a class struggle cannot be the solid basis for an enduring state system or a productive economy. This is the basic reason that compelled the USSR, the first and the most powerful socialist state, to revert back to capitalistic path in the early 1990s. (Basu 1999)

Democracy: Now we are left with democracy, which, from the standpoint of human freedom, is the best conceivable form of government. Amartya Sen has emphasized the role of public opinion and the mass media in ensuring proper functioning of democracy. (Drèze & Sen 1989, pp. 278-79). However, the present state of democracy in the world and associated global trends are not at all encouraging. Sen’s hopes, placed on the masses and the media to make democracy really meaningful, come up against the Smithian dilemma.

THE SMITHIAN DILEMMA AND THE CRISIS OF DEMOCRACY

Adam Smith unequivocally explained why material achievements in the form of economic power are conceived as the best server of self-interest of an individual in spite of all personal hazards associated with it. Here Smith goes deep into basic human psychology and puts forward his findings from empirical observations. An inherent nature of any human being, whatever his own position, is to praise and worship successful and rich people, however immoral be the means by which this opulence has been achieved. Moreover, most people nurture in their subconscious the hidden desire to

⁵ See Manusmriti: chapter-7, ślokas: 30-49, 58, 79, 142-47, 221-26 (*Sacred Books of the East*, Vol. XXV, edited by F. Max Müller, Oxford Clarendon Press, 1888) and Arthaśāstra of Kautilya: book-I: ch-5/7-17; ch-6/1-10; ch-7/1-8; ch-9/6-25; ch-19/9-11 (Kangle 1986).

⁶ According to the Greek author Diogenes Laertius, Plato received an invitation from Dionysius, the king of Syracuse to turn his kingdom into utopia and Plato readily accepted the invitation. But when Plato suggested the king either to become a philosopher himself or to relinquish power for some philosopher in order to make his kingdom a utopia, the king became infuriated with Plato and sold him as a slave. Fortunately Plato’s disciple Anniceris appeared in time as a rescuer by repurchasing Plato from the slave trader. These events disillusioned Plato. (For this account see Laertius 2001, book-3, XIV-XVIII).

achieve opulence and fame so as to get the praise and approbation of all and sundry. (Smith 1759, I.III.28-31)

This basic nature of the masses belies all hopes to bring corrupt politicians to the path of ethics and virtue. The inner discipline of all the major political parties makes it impossible for the ordinary members to protest against the mischief of the leaders. Moreover 'leader worship' because of this Smithian psychosis impels the cadres, members and supporters of political parties to ignore the heinous activities of the leaders. The corrupt politicians also inculcate the inherent corrupt mentality of the common people. Thus the politicians get absolute freedom to do whatever best serves their personal interest even at the cost of the society and the masses. This belies all our hopes to eradicate poverty and social injustice through the democratic system, the last conceivable place of hope.

We once again come back to the Marxian conviction that deprivation, injustice and exploitation cannot be eradicated so long as private property and along with it the division of labour, competition, exchange, family structures and the State remain in existence. In brief, classless communism is the only real solution. Now if we consider Marxian communism a pure utopia, we are relegated to a hopeless dilemma as none has yet been able to devise an alternative.

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