Session 7: Social and political Implications of Economic Liberalization in South Asia

Politics of Reform in India: Kerala Model Under Pressure

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(Abstract)

The southernmost state in India, Kerala, has been a subject of academic analysis down the years. This owes largely to the remarkable levels of social achievement - universal literacy, low mortality, low child mortality, high life expectancy at birth, social security net works - attained by the state which is even comparable to the West. But the neo-liberal reforms in the crucial sectors such as Public Resources, Power, Urban Development, Environmental Improvement and Poverty Reduction with Asian Development Bank policy loan has brought into focus mixed responses.

In the paper, the following research questions would be addressed:

* What were the material and political circumstances - at the global, national and subnational levels - that left the state open to the advent of the ADB and its policy-induced reforms?
* What exactly would be the sequence of the restructuring processes proposed by the ADB and in what way would they connect with the second-generation reforms launched by the national government?
* What are the likely implications/ramifications of the policy restructuring insisted upon by the ADB in terms of social security, employment, debt servicing and transfer of wealth?
* What cogent alternatives could be offered against the unilateral pushing of the neo-liberal agenda at the sub-national level, sustaining/modifying/rejecting the Kerala model of development by contexualising the very model itself in the broader critique of (global) developmentalism?

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The three decades of the Cold War, and then the reconciliation, both at the expense of the poor nations of the world, prompted the wise old Chou En-Lai to quote an African saying: When two elephants fight, it is the grass beneath that suffers. "But' he added wryly, "when they make love, the grass suffers none the less".[1] The moral of the story is that the economically weaker nations must never rely on a superpower to better their lot: self-help is clearly the best help. The record of the Asian Development Bank (ADB) in the Asia Pacific region is proof enough of this, be it in reference to the power sector in the Philippines, the transport system of Sri Lanka, Pakistan's Access to Justice Programme or the Greater Mekong Sub-regional Economic Reforms. Japan - one of the prime movers of the ADB[2] - also has much to answer for as far as its Overseas Development Assistance is concerned, as is evident from the violation of human rights in the case of the Sardar Sarovar Dam in India and the Koto Pandgjang Dam in Indonesia.[3] Probably the ADB's most infamous involvement was with Vietnam, which it initially refused financial aid in keeping with the U.S embargo; and when it did deign to extend its policy loan to Vietnam in 1993, it only turned out to be a burden. Many such "uncivil engagements" of the ADB in the neighbouring

[1] cited in Jacques B Gelinas, *Freedom from Debt*, Zed Books, London, 1994:12 that is being shared by the present author

[2] Japan and the U.S are the two most influential countries in the 61-member ADB with each owning a subscription of around 16 per cent of the Ordinary Capital Reserve translating into an almost equal voting power of 13.533 and 13.105 per cent respectively. Despite the fact that Japan has a much higher share of 52.3 per cent in the cumulative fund as against 11.2 of the United States, the latter wields more power in foreign policy matters. Further, advanced countries jointly account for more than half of the total voting power. India which joined the ADB at its inception in 1966 itself, has 6.667 per cent of the ADB's total subscribed capital with a voting power of 5.718 per cent, see Nihal Kappagoda, *The Asian Development Bank*, Vol 2, Lynne Rienner Publishers, USA, 1995.

[3] Raffer Kunibert and Singer, H.W, *The Foreign Aid Business:Economic Assistance and Development Co-operation"*, Edward Elgar, U.K,1996, p.117.

countries and within the country have come under focus[4]. Yet, the Government of India as part of its second generation state-level reforms drives its states towards a neo-liberal financial regime through the ADB assistance programme totalling approximately US$8 billion over the 2003-6 period; an average annual assistance of about US$2 billion. The current package of assistance is aimed at an improvement in infrastructure such as roads, railways, inland waterways, power systems and gas distribution systems and urban programmes like water supply, sanitation, as well as rural development; financial sector reforms and public sector restructuring often form the core of the ADB policy package. Most of these projects would be located in focal states as identified by the ADB namely, Chhattisgarh, Assam and Sikkim in addition to Gujarat, Madhya Pradesh and Kerala. While the ADB-driven programme runs largely unhindered in many of the states, in Kerala, a state known for its communist legacy and its consistently high level of social model of development through public action,[5] it has come up against stiff resistance. Nonetheless, the state is now being coerced into complying with the neo-liberal regime of the ADB. This paper is constructed against this backdrop.

The Background:

Ironically, it was the ‘Chicago Boys’ of the then-ruling Communist Party of India (Marxist) in Kerala, who first initiated a dialogue with the ADB in 1996 and later in 1998. The matter was discussed neither with the coalition partners of the Left Democratic Front (LDF) nor within the State Party Secretariat. A Concept Paper was submitted to the Government of India (see the document 1 of 8, dt 15 October 1998, GoK) on the basis of discussions held with the ADB mission in 1998 accepting in spirit the neo-liberal agenda of a restructuring of public utilities based on market principles and private participation. Though the ADB had been keen on financing a 'communist government' it had insisted on a political consensus on the future course of action as a pre-requisite for its selection of Kerala as a focal state, just as it had selected Gujarat and Madhya Pradesh in 1996 and 1997 respectively. The then opposition led by the United Democratic Front (UDF) had been in no way averse to the

[4] This has consistently been brought out by the *Focus on the Global South,* a Thailand-based NGO; search http:///www.focusweb.org

[5] For a discussion on the Kerala model of development – universal literacy, high expectancy of life at birth, low maternal and child mortality etc - and public action, see Dreze, Jean and Amartya Sen,

ADB package, assuring the ADB mission that it recognised the need for ‘pragmatism’ and fully supported ADB’s reform agenda in the state. However, the actual execution of the contract and the first tranche have now come into the hands of the present ruling coalition – the right-wing UDF.

Terms and Conditionalities

The US$775 million loan - more than 3700 crores of rupees - as is envisaged now is meant to launch three sets of reforms: the Modernising Government Programme and Fiscal Reforms (MGP) with a quota of US$ 300 million, the Power Sector Reforms, and the Urban Development, Environmental Improvement and Poverty Reduction Programme, each being apportioned US$200 million respectively. The Netherlands has also proposed to co-finance the MGP with an amount of US$75 million. The MGP and Fiscal Reforms, the agreement on which has been finalised, is a cluster loan comprising two sub-programmes: the first would receive the allotted US$200 million in two equal tranches and the remaining US$100 would again be disbursed in sequence, every fresh disbursal hinging on the state's adherence to the prescribed reform programme.

The loan would be received by the Government of India, which would then direct it to Kerala in a 70:30 loan-grant ratio as Additional Central Assistance. The repayment would be over a twenty-year period with a grace period of five years. The GoI would receive the finance from the ADB's London Inter-Bank Offered Rate (LIBOR)-based policy lending facility at an interest rate of less than 3 per cent, a commitment charge of 0.75 per cent per annum and a front-end-fee of 1.0 per cent. The interest rate that the state is expected to pay to the Centre for the loan portion is as high as 11.5 per cent in rupee terms; considering the grant component, the effective incidence would be only 8.05 per cent, the state asserts. As of now, it is the GoI that would bear the foreign exchange risk on the loan which would have

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India:Economic Development and Social Opportunity, Oxford University Press, Delhi, 1995.

to be paid back in dollars but the possibility of at least a partial transfer of risk to the state government cannot be ruled out.

Almost as a perfect foil to its commercial loan, the ADB has put forth specific policy conditionalities[1] as part of its shift from "project lending" to "programme lending" which would also co-ordinate well with the Structural Adjustment Programme of the World Bank. The Government of Kerala has acquiesced in this respect too. A few of the stipulations are worth the mention. In future, all contracts or agreements or even negotiations with other financial agencies/donors would have to be discussed with the ADB, which reserves the right to insist on a cross-conditionality with respect to other foreign contracts. In clearer terms, the Government loses its right to freedom of decision making in matters of finance; the state even forfeits its freedom to enter into bilateral negotiations with other financial agencies/countries. The other specifications are equally repressive: as part of restructuring of State Level Public Enterprises (SLPEs), the state would have to assure a minimum annual "net attrition rate of one per cent", approval and extension of Voluntary Retirement Scheme and Employee Separation Scheme to all categories of workers, and successful implementation of the recommendations of the Enterprise Reforms Committee (ERC) to the effect of accepting "alternative systems of management including privatisation, disinvestment, merger, management contracts and leasing". And as for projects that are already underway, those over five years old would stand terminated, if so deemed by the ADB by December 2002, no matter how far they have progressed or how extensively their benefits accrue. The state is expected to submit reports to the ADB on its production and trade statistics from time to time; this, when seen in counterpoint to the total lack of transparency in the ADB-GoK discussions lucidly illustrates the unequal terms of information exchange being foisted on the state. The GoI is also required to open a "Deposit Account" with the RBI for the express purpose of operating the ADB loan; while all transactions with the ADB would be routed through this account which is to be "established, managed and liquidated" in accordance with terms and conditions satisfactory to the ADB, the state government has failed to work in a withdrawal clause on its own behalf. More over, public utilities would henceforth be run on market principles with cost recovery and efficiency in delivery being pivotal points. This would most likely manifest as a cess on education, health and water and a tariff hike in the power sector; 'uneconomic' schools would be closed and the Public Distribution System, Kerala' pride, would be confined to a bare minimum, in effect, it would mean an enclosure of the commons.

It seems rather incongruous that a supposedly "desirable" policy package such as this should be hemmed in by so large an array of compulsions and pre-conditions. Clearly, the multiple conditionalities that accompany the ADB loan is such that the very democratic basis of the state stands threatened. The MGP[6] which promises to be a "paradigm shift in the way Government transacts its business" would in reality translate into an enforcement of the ADB diktat; and the bottom line is that the state cabinet even surrenders its right to remove from office the bureaucrat/s assigned responsibility for the MGP. Neither does the state 'own' the reforms on the agenda nor is it capable of stemming the erosion of its sovereignty.

State Finance: Economic Crisis or Resource Mobilisation Crisis

The two sets of problems that the Government of Kerala faces, as identified by the ADB are the breakdown of the finances of the state and low economic growth on the one hand and the poor performance of public service systems on the other, and it asserts that they mutually reinforce one another.[7] The ADB's reading of the state's fiscal position is first of all partial, and secondly, its obvious agenda is the institutionalisation of neo-liberal reforms serving the interests of market capitalism.

That the financial status of the various states in India have been badly eroded since the mid 1980s brooks no argument. Though the states have themselves have contributed to this, had it not been for the drastic dip in Central transfers[8] coupled with the adverse effects of globalisation and regional trade agreements, many of the states would have escaped the

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[6] MGP: A Strategy Document, *GoK*, 2002.
[7] Ibid.
[8] For detailed arguments, see M. Govinda Rao, "Sate Finances in India: Issues and Challenges", *Economic and Political Weekly*, August 3,2002: 3261-71; "Linking Central Grants to Revenue Deficit Reduction by States", *EPW*, June 3-9, 2000; M Govinda Rao and H.K.Amar Nath, "Fiscal Correction:Illusion and Reality", *Economic and Political Weekly*, August 5-11, 200:2806-9; K.K.George, "State Level Fiscal Reforms in India: Some Core Issues", CSES Working Paper, No 6, 2002.

massive fiscal imbalances that are now manifest. The situation in Kerala is much worse than that in the other states, with the history of its fiscal deficit going back much longer than the others. [9] All the fiscal indicators with respect to Kerala – the fiscal deficit, revenue deficit and the primary deficit – have shown an increasing trend as a percentage of the State Domestic Product from the mid-nineties.[10] The share of revenue deficit in the total fiscal deficit was as high as 85% in the late nineties. The primary deficit as a percentage of total fiscal deficit has also shown a hike during this period. The responses of various states in India to their respective fiscal imbalances have been varied, ranging from public expenditure cuts and treasury restrictions to borrowing from various sources including multilateral financial institutions. While Andhra Pradesh, Karnataka, and Uttar Pradesh have opted for World Bank loans, others like Madhya Pradesh, Gujarat and Kerala have resorted to high-conditionality loans from the ADB.

It seems pertinent here to pose a crucial question: what exactly has been the cause of such a 'fiscal crisis' in Kerala? Is it the negative/slow growth of its economy as conventionally argued, or is it just a lack of mobilisation of resources/revenues leading to a liquidity squeeze? Available evidence points unequivocally to the latter. Contrary to the trend in the early 1980s, the Kerala economy registered a revival from the late 80's, and stayed above the all-India average until the mid-nineties. Though it could not maintain this tempo, the economy has still been performing well.[11] This was despite the aberrations created in the cash crop sectors owing to trade agreements such as the WTO and the India-Sri Lanka free trade pact[12], the declining trend in the devolution of revenues to the state, and the successful implementation of the statutes of the revised pay commission. The MGP, however, has been maintaining a strategic silence on the deleterious effects of economic globalisation and

[9] K.K. George, *Limits to Kerala Model of Development*, Centre for Development Studies, Thiruvananthapuram, 1999; "Historical Roots of the Kerala Model of Development and its Present Crisis", *Bulletin of Concerned Asian Scholars*, Vol30, N04, October-December 1998, pp.35-40.

[10] K Ravi Raman, "External Finance and Policy Reform: Contextualising the Asian Development Bank in Kerala", paper presented at the M.G. University, Kottayam, 22 November 2002.

[11] K.K.Subrahmanian and E.Abdul Azeez, "Industrial Growth in Kerala: Trends and Explanations", CDS Working Paper 310, 2000; Ravi Raman, op cit.

[12] For the impact of Indo-Sri Lankan trade agreement on Indian economy, see K.N.Harilal and K.J. Joseph, "India-Sri Lanka Free Trade Accord", *EPW*, May 27, 1999, pp. 750-53.

federal politics on the state's finances.

Liquidity Crisis and Social Structures of Accumulation: A Class Question

A few glaring inconsistencies in resource mobilisation could be highlighted here. The swelling middle and upper class income brackets in the state signal a vibrant consumer market in the state. It is most reflected in the elevation of Kerala to the status of a state with the highest per capita consumer expenditure in India. Yet, commodity taxes have not yet been tapped to their full potential.[13] Sales tax evasion is as high as 30 per cent and it is obvious that the richer sections of the society stand to benefit from this. The case of specific commodities traded in the state makes for strange reading: Kerala is probably the richest market for gold in the country. Yet, the sales tax revenue realised from this sector is as low as rupees 32 crores a year; it should have been five to six times this amount, had it been under stringent tax vigilance. Most importantly, there is an ever increasing revenue loss in various revenue generating sectors of the economy owing to under-assessment of tax, incorrect computation of agricultural income tax, exclusion of income from assessment including those of luxury hotels and bars, non-realisation of potential value in forest produce and so on. This is in addition to the huge arrears of tax the state would have gathered in had it shown the perspicacity to vacate the numerous stay orders on them including those instituted by itself. The non-implementation of revised lease rents in plantations also leads to a loss of at least 500 crores of rupees per annum, allowing the big planters to amass huge profits; this has been repeatedly confirmed by the Assurance Committees of the State Legislative Assembly.[14] A quick estimate of such locked up funds in the state comes up to more than Rs3600 crores of rupees, an amount almost equivalent to the ADB loan. Yet, the class bias of the state blinds it to such encrypted sources of funds which in Kerala help foster social

[13] Various aspects of commodity taxation in Kerala have been explored by Jose Sebastian, *Essays on Commodity Taxation in Kerala*, Commonwealth Publishers, New Delhi, 2000.

[14] For details see Legislative Assurance Committee Reports, dt 14 November 1996 and 29 July 1997 submitted to the Tenth Legislative Assembly, published by the Government of Kerala.

structures of accumulation[15] constituted by groups of large business traders, owners of luxury hotels, big planters, gold merchants, liquor barons, forest contractors and so on. They form multiple nodes in the power-chain, which ultimately winds its way to the state apparatus. As the state is inherently biased in favour of such power relations, huge amounts of accumulated funds remain frozen, their flow to the state exchequer arrested, leading to what could be called a state-'patronised' liquidity crisis.

Other possibilities of resource mobilisation which however lie outside the purview of the state and are ruled by extraneous forces include the newly introduced services tax, Central transfers and market borrowings. With its economic performance being primarily driven by the services sector, Kerala could bargain with the Centre for the right to levy taxes on more and more services. Given the fact that the Central transfers to the state(s) are on the decline, and that the state like Kerala has been penalised for its progress through an alteration in Criteria and Weightage of the Eleventh Finance Commission - Kerala loses more than Rs3000 crores for the plan period of 2000-05 - one would expect the state to be compensated for this by developmental/concession loans and assistance from the Centre as well as by permitting the state to accept special grants from other countries. But the state has been denied even the latter facility with the Netherlands' grant being apportioned in 70:30 loan-grant ratio, both as part of the ADB-led cross-conditionality and the guidelines of the Additional Central Assistance. Hence, the state's assertion that the effective interest levied on the loan is only 8.05 per cent often sounds hollow.

The state should also have found ways to attract a significant portion of foreign exchange from its Gulf migrants to the tune of 15,000 crores per year, [16] had it politically negotiated

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[15] It implies that contrary to the view of traditional neo-classical economics, institutions and social structures including the state apparatus do make a difference to the functioning of the larger political-economic system. For a theoretical understanding of the "social structures of accumulation", see Gordon David M, Thomas E. Weisskopf, and Samuel Bowles, *Segmented Work, Divided Workers: The Historical Transformation of Labour in the United States*, 1982, Cambridge University Press; David M Kotz, Terrence McDonough and Michael Reich, *Social Structures of Accumulation: The Political Economy of Growth and Crisis*, Cambridge University Press, 1994; For a variant contemporary reading, see Barbara Harriss-White, *India Working,* Cambridge University Press, 2002.

[16] For details see K.C. Zachariah, Kannan, K.P and Irudaya Rajan, S, eds. *Kerala's Gulf Connection:CDS*

with the Centre and offered an interest rate nearly as much as it is bound to give to the Central Government. The domestic savings of the state - including the foreign exchange remittances - in the scheduled banks works out to more than Rs52,000 crores of rupees, of which around rupees 22,000 crores are given as credits to the state. The low credit-deposit ratio in the state as against a higher CD ratio in other states/metropolis is often a pointer to the route of surplus drain from the state: a state/region denied its own surplus for reinvestment can never hope to prosper. More over, the under-subscription of state securities in conjunction with stringent RBI stipulations easily justifies the State's claim to more funds from the banks for productive investment. The malayali-world would do well to realise that Japan became what it is today through the mobilisation of its domestic savings in its era of post-War devastation. The transformation of China into an industrial giant in the current climate of globalisation has quite a lot to do with the money spent by the overseas Chinese diaspora – about 70 per cent of the FDI in China originates from them, particularly those in Southeast Asia. Had the state been able to find economic and democratic ways of mobilising the already generated surplus or whatever is mandatorily due to it both from the classes of accumulation as well as the public, it could have substantially expanded the productive base of its economy with sustainable fiscal balances. But the ADB has again (and World Bank) outmaneuvered the Centre glibly walking away with permission to raise up to $250 million in rupees from the Indian debt market. [17] Enron, the architect of the Maharashtra power debacle too mobilised its funds from Indian banks!

ADB Loan No Cure for Debt Overhang

If we were to grasp the true consequences of the ADB loan in Kerala, we would have to first examine the existing public debt situation of the state. Like many other states in India, the outstanding debt of Kerala too has been rising fast during the 1990s. In absolute terms,

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Studies on International Labour Migration from Kerala State in India, CDS, 2002.

[17] The Hindu, September 24, 2002. This would amount to raising of funds by a foreign agency for lending money within the country thus accentuating the post colonial "bleeding process". For the argument that Kerala in no way suffers from a lack of capital but is the victim of surplus drain through various routes, see K T Rammohan and K Ravi Raman, "Of Cochin Stock Exchange and What It Means?", *Economic and Political Weekly*, January 6, 1990, pp.17-19.

the total debt of the state increased from 4716 crores in 1990-1 to 20176 in 1999-00. The debt indicators such as the debt-state domestic product ratio and the debt-servicing ratio show the vulnerability of the state to the extreme. The debt servicing cost went up from 483.42 crores in 1990-91 to 2410 crores by the beginning of the present century. The major part of the state's debt is to the Centre, though its share keeps on declining. The ratio of outstanding state debt to the NSDP is more than 34 per cent, one among the highest in India; debt servicing accounts more than one-fourth of the total revenue receipts. The repayment capacity has not been catching up with the growth of the cost of debt servicing and the late nineties foreclosed the probability of debt sustainability in Kerala, the state has entered into a phase of debt overhang[18] and the internal debt trap is too close for comfort. Any fresh borrowing therefore would only further compromise the financial well being of the state - the annual debt servicing for the ADB loan alone would be within the range of Rs3000-4000 million for about a decade, after which the state would have to continue to pay a sizeable amount for the entire loan period. This in addition to the existing cost of debt servicing worth around Rs 2700 crores would take the annual repayment rate to the range of rupees 3000-3200 crores for a considerable period of time. The implications are many: the amount spent for debt servicing alone would approximate to 80 per cent of the annual plan out lay of the state which in turn would put the entire state budget under strain. As the state has to set aside much more than one third of its own revenue for debt servicing, the already shrinking social expenditure would become the first major casualty: the ADB loan with its conditionalities that would reverse the social model of development is quite obviously not the right "fiscal medicine" for the state. It must also be pointed out here that the United Nations Development Programme[19] considers it desirable for a country

[18] For a brief survey of debt overhang in developing countries, see Jeffrey D Sachs, "The Debt Overhang in Developing Countries" in Guillermo Calvo et al ed., *Debt, Stabilization and Development,* Blackwell, Oxford, 1989, pp.80-102.

[19] UNDP, *Human Development Report* (1991:41-49), Oxford University Press, New York, 1991. Also see Dev Mahendra S and Jos Mooij, "Social Sector Expenditures in the 1990s: Analysis of Central and State Budgets", EPW, March 2002,pp. 853-866.

to have a social allocation ratio - the percentage of public expenditure earmarked for social services - of more than 40 per cent. Even as India sported a ratio of 34 per cent throughout the liberalisation decade of the 1990s. Kerala, however, had a commendable social allocation ratio of 41 per cent in 1990-91. But as neo-liberal reforms took root in Kerala, this ratio dwindled to 35 per cent in the mid 90's and further down to 33 per cent in 1999-2000, far below the UNDP standard. If the Kerala government were to adhere ADB prescription, it would ultimately lead to social de-investment/de-spending, the consequences of which would tell particularly upon the vulnerable sections of the society.

Table : Debt Servicing Cost (DSC) as a percentage of TRE, TRR and NSDP in Kerala (Rs crores), 1990-1 to 1999-00

Year	TotalDebt (Rs)	TD/SDP	DSC(Rs)	DSC/TRE	DSC/TRR	DSC/ OR	DSC/NSDP
1	2	3	4	6	7	8	9
1990-91	4716.79	38.75	388.21	13.74	16.16	25.41	3.19
1991-92	5466.56	36.20	483.42	15.03	16.95	25.33	3.20
1992-93	6297.13	36.66	542.51	14.84	16.35	25.04	3.16
1993-94	7198.67	30.76	687.16	16.01	17.52	25.75	2.94
1994-95	8820.87	30.74	819.67	16.18	17.57	25.65	2.86
1995-96	10113.54	28.82	924.16	15.86	17.04	23.59	2.63
1996-97	11420.91	27.98	1103.41	16.26	17.96	25.01	2.70
1997-98	12868.14	26.85	1304.78	15.83	18.33	25.82	2.72
1998-99	15700.28	27.76	1512.96	16.40	21.02	29.05	2.67
1999-00	20176.00	34.37	1952.27	16.88	24.58	34.11	3.33

TD=Total Debt, TRE= total revenue expenditure, TRR= total revenue receipts, DSC= interest payments & servicing of debt, NSDP= net state domestic product, OR= state's own revenue.

Source: computed from RBI bulletins.

Good Governance as the Bail Out Package?

Yet, the state tows the ADB line that it was bad governance that bred the fiscal chaos, poor public delivery and rural/urban poverty in the state. The solution then lies in the modified Washington Consensus that the right policies - modernisation of governance in such a way that there would be cuts in social security measures including pension and retirement benefits, privatisation of strategic state enterprises and so on - would act as catalysts for economic growth and fiscal sustainability which in turn would ameliorate poverty. And in order to channel policies according to plan, aid must be accompanied by multiple conditionalities as per the lines of multilateral financial institutions. And it is for this that good governance becomes mandatory, for the ADB in Kerala.

To this end then, the state cabinet itself was converted into an administrative reform committee of the Asian Development Bank. With the 10th Plan document itself being carved out of the larger agenda of the ADB, the State Planning Board thought it fit to drop the term 'self' from the earlier 'local self administration'. A senior state's spokesperson even went, as far as to say that democracy is an obstacle to development. And the government plays along with the ADB, only too willing to accept its package of conditionalities such as direct intervention in policy matters including the approval of VRS and ESS to all categories of employees - a Government that ought to be providing jobs for its educated unemployed masses has actually agreed to pare employment opportunities down to an "efficient minimum", having already done away with many of the. Service benefits of the employees. More over, by redefining one of the "core functions"[2] of the state as policing, and by disciplining labour through a variety of labour regimes, the class colour of this new governance is gradually surfacing.

Secure in the knowledge that "the biggest risk comes from public action against reform",[20] the ADB pressed ahead with its "good governance" agenda. The state was prodded into instituting a massive hike in power tariff, which was to earn for it the first tranche of the

[20] ADB File, State MGP Office, *GoK*, Thiruvananthapuram.

ADB loan. The prophesied "public action" came in the form of a massive mobilisation of various social sections; this included the mainstream Left parties, who had bee been responsible for inviting the ADB to the state in the first place. In spite of these protests, the state succeeded in wresting a small victory, hiking up the withdrawn tariff once again, but at a lesser rate. The agenda for the power sector reforms does not confine itself to tariff hikes alone, it further encapsulates unbundling and corporatisation - the setting up of separate companies for the generation, transmission and distribution of electricity and the formation of an autonomous Tariff Regulatory Commission - all intended to privatise the public sector giant. This is at a time when de-regulation in the power sector in most of the countries has presented a dismal picture with price gouging and hoarding. And the way in which the power sector reforms have finally evolved, even denying a meagre subsidy to the marginal farmers in Madhya Pradesh, has proved beyond doubt the hidden agenda behind externally aided policy loans. What is more interesting is that no effort has been made to seek viable alternatives - such as an eco-friendly and decentralised electricity network - to the existing pattern of electricity generation and distribution in the state. The heavy bias in allocation of high-tension power in Kerala to a handful of industrial enterprises with low levels of employment and minimal linkage effects, the continuous patronage to power-sucking units and so on are all being perpetuated while the possibility of setting up mini-hydel projects remains unexplored - and that in a state which is criss-crossed with rivers. In-house alternatives[21] have also been ignored in preference to the privatisation strategies propounded by the ADB. This is explicit in the experience of the APSEB, which was subjected to WB-driven reforms in spite of its satisfactory performance indicators. And even as the reform structure malfunctions, the message still fails to go home: Kerala moves blindly ahead towards the very same experience that befell Orissa.

The (In) human Face of the Modernising Government Programme

If the state has strained itself to create an impression that the ADB bound modernisation

[21]K P Kannan and Vijayamohanan Pillai, N, *Plight of the Power Sector in India: inefficiency, Reform and Political Economy*, Centre for Development Studies, Thiruvananthapuram, 2002. For a detailed critique of power sector reforms in various states in India, see S.L.Rao, "The Political Economy of Power", *EPW*,

programme would be implemented with a "human face", the very fact that hardly 4 per cent of the adjustment cost is earmarked for poverty eradication in the MGP - the Kerala model of the twenty first century - has brought its efforts to nought. This is notwithstanding the fact the state generated counterpart fund of US$152 is to be added to the US$375 loan. It must also be mentioned here that a significant portion of the same would again be spent for the identification of the poor. In a situation where starvation deaths among the outliers[22] have dragged the Kerala Model in mud, one wonders what fresh effort is required to identify the poor. Delivery improvements in the public utilities through "asset renewal" and other measures of social security and social audit net work might give the state a face-lift; but it would take a far more comprehensive programme involving a radical redistribution of assets and sustained employment opportunities to make a tangible difference in the lives of the poor - an aspect that seems to hold no significance for the ADB.

As things stand now, the public sector restructuring envisaged would only aggravate the problems of the working class and those in the lower and middle-income groups. For instance, given the fact that nearly 98 per cent of employees of the Kerala State Cashew Development Corporation Ltd (KSDC) are workers, any attempts to restructure this concern would spell doom for them who would have no alternative employment to turn to. Such apprehensions do find a place in the ADB-supported Poverty Impact Assessment (PIA) of the loan[23]; it points out that the curtailment of the total government expenditure would adversely affect the poor, but avers that this adverse impact would be strongly mitigated by two comprehensive initiatives as part of the MGP, namely the Local self-government Action Plan and Anti-Poverty measures. The PIA further seeks cover behind the poverty alleviation schemes, and, in particular, Kudumbasree and micro credit enterprise programmes, blandly ignoring the fact that women's self-help groups are well on their way

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August 17, 2002,pp. 3433-44.

[22] For the relative discrimination against dalits, adivasis and fisherfolk in the Kerala model of development, see Gail Omvedt, "Disturbing Aspects of Kerala Society", *Bulletin of Concerned Asian Scholars*, Vol 30, N0 3, July-Sept 1998, pp 31-33; K Ravi Raman, "Breaking New Ground: Adivasi Land Struggle in Kerala", *EPW*, March 9, 2002, pp. 916-18; John Kurien, "The Kerala Model: Its Central Tendency and the Outlier", *Social Scientist*, Vol 23, Nos 1-3, January-April 1995, pp. 70-90.

[23] Poverty Impact Assessment of the Policy Based Loan – Kerala, ADB File, State MGP Office, *GoK*, Thiruvananthapuram, 2002, pp.8-9

to extinction in this globalised country. The fact that Kerala has always been quite the most globally integrated region in India and that the state's own initiatives – including the women's industries programme of the 1980s - stand threatened by this is something that the PIA and the MGP willfully ignore.

When the PIA maintains that the SLPE reforms "do not have any fundamental conflict with the goal of poverty alleviation", it grossly underplays the experiences of other countries wherein state withdrawal had led to a loss of access to food, health, education and sanitation facilities. Further, it fails to learn from the social chaos faced by the sacked public sector workers in those countries that underwent public sector restructuring.[24] Above all, when the reforms treat retrenchment/privatisation as an antidote to inefficiency, who is being punished - the inefficient bureaucracy or the working place? That workers drawing a monthly remuneration of hardly Rs 900 – as in the case of KSDC and as in some other SLPEs – could rob public sector enterprises and utilities of their profit is an argument that the enlightened public of Kerala would find difficult to accept. If it were truly so, it may be worth noting that many of the SLPEs were not meant for profit-making. And this is precisely why the public sector employees of the state have rejected the recommendations of the Enterprises Reform Committee (ERC) constituted by the Government of Kerala, for whom restructuring of SLPEs reads privatisation, disinvestment and closure.[25] Incidentally the ERC had submitted its "Approach Paper" on the 111 SLPEs in the state in exactly 36 days! Its peremptory exhortation to restructure - an euphemism for privatisation/closure - SLPEs like the Kerala State Drugs and Pharmaceuticals Ltd and the Kerala Soaps and Oils Ltd without so much an attempt to enquire into the causes of their failure, is hardly justified in a state with an intensely health/hygiene conscious populace. One can only conclude that the ERC has deliberately chosen to ignore the origins of SLPEs in Kerala and their positive role in the social development of the state, just as it glosses over the true nature of the private sector which

[24] The public sector workers who were sacked as part of neo-liberal reforms finally had to encroach on forests as in Brazil and Peru or turned to illegal drug production as in Bolivia, see Susan George, *The Debt Boomerang: How Third World Debt Harms Us All*, Pluto Press, London, 1992, p.108.

[25] *GoK*, *Approach Paper for State Level Public Enterprise Reforms in Kerala*, Enterprise Reforms Committee, dt 20/03/2002.

has exhausted the state's subsidised natural resources, damaging its ecology and draining away its wealth. [26]

Who Stands to Gain?

At the other end of the scale, who stands to gain from all this restructuring and modernising is all too clear; the massive allocations for capacity building, training, and computerisation speak for themselves. More over, there being a continuing emphasis on large-scale infrastructure projects and modernising government, the ADB is very particular that all procurement – engineering technologies for civil works, software and hardware, goods and related services - will be through "normal commercial practices in case of procurement by the private sector, or prescribed procedures acceptable to ADB in case of procurement by the public sector, having due regard for the principles of economy and efficiency". It would imply that the ADB contracts would be awarded through internationally advertised competitive bidding with the caveat that bidding would be confined to the powerful donor countries of the ADB. The past performance of ADB-tied procurements reveal that most of the procurement goes to the world's biggest corporate capital in the donor countries such as Mitsui and Co, Mitsubishi of Japan, Cooper Rolls and Raytheon Company Electronic Systems and Cargill Fertilizer of the US, Siemens of Germany and Balfour Beatty of the UK[27].

And with respect to grant/loan-tied Technical Assistance, the beneficiaries are again a handful of the donor countries particularly the U.S., UK, Canada and Australia; it was to the PDP Australia (P) Ltd that the consultancy on fiscal reforms in Kerala went. The Australian Treasurer's report to Parliament on the ADB for 1998-99 states that "ADB-

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[26] For one such instance concerning the Birla-owned rayons factory at Mavoor, see K T Rammohan and K Ravi Raman, "Kerala Worker rises against Indian big Capital - a Report unfinished on Rayon Workers Struggle" *EPW*, July 2, 1988, pp. 1359-64; "Mavoor Rayons Accord : Kerala Government on its Knees" *EPW*, January 7, 1989, pp. 16-17.

[27] For details see Chris Adams, "Punishing the Poor: Debt, Corporate Subsidies and the ADB" in *The Transfer of Wealth: Debt and the making of a Global South*, Focus on the Global South, 2000:20-31.

financed contracts provide sizable commercial opportunities for Australian firms and can be stepping stones to further work in developing countries in Asia and the Pacific".[28] The ADB thus plays a lucrative source of procurement of contracts for multinationals from donor countries, with local capital as junior partners. Not surprisingly, the genesis of many of these corporate capital which have won ADB Technical Assistance contracts, may be traced back to policy-based lending with huge investments in infrastructure; and concomitantly, a new genre of comprador bureaucrats and consultants have been let loose in recipient countries/states like Kerala. As the class constituents of the emerging governmentality would in no way be different from the existing one, the social structures of accumulation in the state would be the other major stake holders; the marginalised sections of society would gain the least, they would instead be the hardest hit in the entire process of neo-liberal model of development.

Derailment of Democracy and Brewing Protests

The state's unholy tie-up with the ADB has been challenged broadly at two levels: as morally-illegal/hazardous and socially undemocratic/uneconomic. And the challenge comes not from self-proclaimed social scientists who grace the academic world, but from trade unions, socially concerned scholars, activists, students, adivasis, women's groups and environmentalists who have risen in protest against the ADB loan. Why should a resource-rich state look for a foreign loan, that too with multiple conditionalities? What moral right does the government have to mortgage future generations of the people of Kerala? How does the state propose to meet its debt servicing obligations in future? In a country that proclaims democracy at every step, how democratic has been the acceptance of the ADB loan - neither a public mandate nor a discussion in the legislature has preceded it? And while the Left Democratic Front and the ruling United Democratic Front point accusing fingers at each other, two things have become clear: it was at the prompting of the present opposition that the ADB first set foot in Kerala; [29] and neither the LDF nor the UDF has had the clarity of

[28] Cited in Chris Adams, op cit.

[29] It is amusing to watch the LDF now trying to shrug off all responsibility for the tie-up with the ADB. The officials of the ADB have used this point to advantage particularly in countering the uncomfortable

vision to seek a peoples' mandate before opting for such a huge loan. It is surprising, even objectionable, that an epoch-making decision such as this should come through with so little involvement from the part of the people of Kerala.

questions raised by the LDF, which now sits in the opposition.

It might be added at this juncture that global finance capital would probably have found its own way to the state in the current phase of globalisation but what seems most inexcusable is the fact that the political leadership of the state has failed to recognise external finance for what it is.

On the first of May 2002, a few democratic groups and socially concerned scholars of Kerala launched a massive Campaign demanding that the ADB quit Kerala.With the state already steeped in debts, any further loan, they said, would only put the economic position of the state in greater jeopardy. More over, once the ADB were to gain a foothold in the state through its “common policy matrix”, it is feared that the financial, social and, to a certain extent, the political structure of Kerala would change, altogether reversing the social development model the state has thus far been proud of. More importantly, it was pointed out that the entry of multilateral financial institutions like the ADB into traditionally grown democratic institutions in the state, would ultimately erode the political self-respect of the majority of the people of Kerala, to the effect of further marginalising the poor; the MGP and the subsequent reforms would prove to be too great a burden for them to shoulder. A day before the democratically organised ADB Quit Kerala Campaign, a few radical youth, calling themselves 'Porattam' (the Fight, a Maoist outfit) ransacked the ADB state office in the capital city of Thiruvananthapuram, damaging office files and equipment.

The Campaign, with new groups of feminists, environmentalists, and scholars itself chose novel ways to register its protest. It instituted a "sathyagraha chain" in place of the ritualistic relay fast. Any one was free to join the chain, which was maintained for several days. When the protests gained momentum with fresh social forces joining in, the state cracked down on them, even dismantling their shelter. It is probably a reflection of our times that none of the so called intellectuals thought it fit to question this most undemocratic action of the government, save one or two members of the opposition. Though the Campaign drew to a halt for a few days, the individuals involved kept up their protests in unprecedented ways: a dalit activist bound himself in chains in front of the secretariat with his little son, too, to help him. But the most novel protest probably came from the feminist groups of Kerala. They exposed the ADB as an agent of democratic violation and the ADB contract as more than a simple economic contract. Breaking all norms, they claimed the night for their own, painting and dancing all night long to express their anger and discontent. A "democratic hartal" was also called for by the Campaign on the 1st of November - the day of state formation - only those individuals who themselves felt compelled to join were expected to participate. Needless to say, the participation was negligible. At the moment, the number of malayalis who are privy to the risks inherent in the ADB-driven reforms are few. And little do the rest know that the politics of reform makes it compulsory to accept it even if the existing system does function well. Neither does the public seem to realise that the 2003 Global Investors' Meet in Kerala was designed to prey on its abundant natural resources. Yet, the hitherto sporadic resistance to the ADB-driven reforms is now becoming increasingly coherent as the true nature of the ADB contract gradually dawns on the people of Kerala; the parliamentary left too has come out in public against the ADB loan. For instance, as the resistance to the ADB package mounted the LDF leader had to declare that the LDF would not repay the loan were they to come to power[30]: though a distinct political option, the statement failed to have the desired effect on the public of Kerala, but it did help heighten awareness of the ‘other side’ of the ADB package.

[30] K Ravi Raman, Quite Another Kerala Model, *Indian Express*, February 1, 2003,p.10

All said and done, the Government has decided to pursue its dream of a "modernised" self and a "structurally adjusted" state. Whether this dream comes to fruition, or remains an illusion, one thing is clear – no more will Kerala ever be God's Own Country…henceforth it would become, irrevocably, the ADB's own country. Behind the larger smokescreen of the MGP, what is being envisaged is an uni-dimensional pushing of the neo-liberal agenda and the centralisation of power in the emerging bureaucratic-authoritarian scenario: the derailment of democracy is imminent. Whether this dream comes to fruition, or remains an illusion, what the socially concerned scholars fear is that whether the state would become, irrevocably, the ADB's own country?. Neo-liberal thought steers the citizenry towards an ostensibly greater future wherein external agencies and other "buffering" mediators would in truth lead them into a state of semi-sovereignty. What has been swept under the carpet is the fact that as a system of governance, democracy easily betters the rest; mis-governance in democracy asks for correction rather than rejection.

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