Reading K N Raj in the Age of Free Market Fundamentalism

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This article tries to assess how K N Raj would have weighed in on some of the major contemporary issues like the trade policy, farm crisis and reprivatisation of public sector banks on the basis of his many writings. It also highlights his views on the fundamental orientation that an academic discipline like economics needs to have for contemporary social relevance.

This is an edited version of the inaugural K N Raj Memorial Lecture delivered (virtually) at the Centre for Development Studies, Thiruvananthapuram on 10 March 2021. I am deeply grateful to Amit Bhaduri, Jinendra Jain, Anshul Maudar, R Nagaraj, Rammanohar Reddy and P S Vijayshankar for their comments on an earlier draft.

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It may not be wrong to say that we are living in the age of free market fundamentalism. For at least the past four decades now, economic policy-making globally could be said to have been in the thrall of a blind and dogmatic adherence to the notion that a progressively reduced role of the state in the functioning of the economy would automatically—*ipso facto*—deliver greater economic growth and welfare to the people. Summed up as the Washington Consensus, it proposes reducing the role of government and moving towards greater privatisation, liberalisation and globalisation of economic activities. This "consensus" has now almost acquired the status of what the French sociologist, anthropologist, philosopher and public intellectual Pierre Bourdieu, in his classic work *Outline of a Theory of Practice*, called "doxa"—beliefs that are "taken for granted, self-evident and undisputed," producing for the established social order "the naturalisation of its own arbitrariness" (Bourdieu 1972: 164). Little attention has been paid to the specific conditions within which or the particular sectors of the economy where reducing the presence of the state could help. My own recent work has focused on arguing that both in water and agriculture such a notion of "reform" is deeply misguided; if we are to resolve India's interrelated water and agrarian crises, what we need instead is to improve the quality of state intervention, build state capacity and strengthen civil society action (Shah 2021a, 2021b; Shah and Vijayshankar 2021).

Since reform, by definition, is taken to mean only one thing, sector after sector is compulsively sought to be freed from what neoconservatives call "the dead hand of regulation" (Wilson 1971), even if overwhelming evidence, over many years, from all over the world, indicates that it is the state that has played the leading role in provisioning the most critical aspects of life: water, sanitation, education, health, food and nutrition. Indeed, it has even been argued by some that the rise of Donald Trump to the United States (US) presidency could have had something to do with what the Massachusetts Institute of Technology economist David Autor calls "guild orthodoxy: the key dictum was that policymakers should be told that trade was good for everyone in all places and times."[1] Autor suggests that single-minded obsession with free trade and its beneficial impacts, led to a lack of focus on taxation of increasingly mobile capital, adequate safety nets and retraining policies for workers who were adversely affected by global competition. The overbearing preoccupation with cutting the deficit or "austerity," another holy grail of free market fundamentalism, just did not allow for consideration of social security and welfare options, even under democratic administrations. The continued decimation of the "countervailing power" (Galbraith 1952) of the working class (again seen as inimical to "free markets") has only intensified growing inequality and poverty.

Free Trade

Such a scenario would have been virtually inconceivable for a thinker and policy-maker like K N Raj. Agree with him or not, the one thing everyone acknowledged about Raj is that he was no fundamentalist. Indeed, quite the opposite, more of an iconoclast, if you will, always challenging prevailing orthodoxies, whether of the left or the right! What can we say, on reading him again, about how Raj would have weighed in on this "free trade" debate? This, especially at a time when it appears to me to be finally turning precisely in the direction where Raj would have wanted it to go, even if quite tragically we may have Donald Trump to thank for that (Cassidy 2021).

Let me take you back 55 years when trade liberalisation first came to the shores of independent India, more precisely to

6 June 1966, the day of the devaluation of the rupee. Raj was an active participant in both the academic and policy debates around the issue. And he took precisely the kind of balanced non-dogmatic view that I would commend to all students of economics. I begin by quoting a few lines from a very famous paper Raj wrote titled "Growth and Stagnation in Indian Industrial Development" in the 1976 Annual Number of the *Economic & Political Weekly*:

> Unfortunately, a large number of persons belonging to my profession in this country, trained and fostered in neo-classical economic theory, cannot forget what they learnt from standard textbooks, and from their mentors in the more advanced industrial countries. The one thing I would like to say, and with all the emphasis I can command, is that I do not agree with much of the analysis and a large part of the policy prescriptions of such economists when they deal with the problems of countries such as India. This does not mean that I do not attach any importance at all to the market mechanism, or the desirability of using it wherever it helps. Nor am I unaware of the limitations of administrative controls and their abuse. What I do not subscribe to are simple magical solutions such as devaluation and import Iiberalisation sustained by more foreign aid, as recommended and accepted in 1966 for the problems faced by Indian industry. (Raj 1976a)

This was, of course, written 10 years after the event. But what was Raj saying real-time? A careful examination of the debate surrounding the 1966 devaluation makes fascinating reading. Jagdish Bhagwati and T N Srinivasan (Bhagwati et al 1972) were the primary advocates and defenders of the devaluation decision and had cast aspersions on Raj's opposition or at least the inconsistency of his positions. They seemed to suggest (in Raj's own words) that "K N Raj had acted like a weathercock and therefore been rightly exposed in Parliament by the Prime Minister" (Raj 1976a: footnote 21). In actual fact, Raj had the much more sophisticated and intellectually nuanced position. Raj had been in favour of rupee devaluation ever since 1964 and had written an article in *Times* (London) in 1965, arguing that export subsidies were not helping and needed to be done away with as far as possible, through an adjustment of the exchange rate of the rupee. However, when he learnt that the Americans were pushing for import liberalisation and aid to be dovetailed with devaluation, he expressed his strong opposition. He did this in a confidential note he was asked to prepare by the Prime Minister herself in February 1966 to help her in her forthcoming discussions with the US President on the issue. In the note entitled "Economic Aid from the US," Raj argued:

> while devaluation might help India in export promotion (if rightly timed), its being tied to import liberalisation and massive aid would not appear to be in the long-term interests of the country ... there is certainly a case for considering devaluation as a substitute for measures of export promotion that have now the effect of diverting the foreign exchange earned to low priority uses ... (but we must not forget that) basically it is the pattern of income distribution in the economy and the kind of consumer goods industries it fosters that has led to the absorption of scarce foreign exchange directly and indirectly in low-priority uses ...
>
> What is being advocated by the World Bank is a simultaneous relaxation of import controls all along the line together with devaluation. This would help the low-priority industries to consolidate themselves, encourage them to expand further, and result in a much larger amount of foreign exchange getting absorbed in uses of no consequence from the point of view of the development of the economy at this stage ...
>
> The purpose of liberalisation is said to be the fuller utilisation of installed capacity in industry—and the case for it is certainly strong in certain engineering industries—but if a general relaxation of import controls is allowed on this ground it is almost sure to be used at the next stage as an argument for shifting priorities in favour of a pattern of industrial development for which both foreign private capital and aid will be more easily forthcoming in the future. (Raj 1976a: footnote 21)

Raj concludes by pleading:

> The problems facing the country are complex, so are the solutions; and one should at least be humble enough to say that one does not quite know how they are all to be tackled. It is enough however if one knows the directions in which one needs to move in order to make progress and avoid following false signals and accepting false promises. (Raj 1976a: footnote 21)

The case against free market fundamentalism in economic policymaking could not be better stated! It is undoubtedly true that free trade can be a powerful engine of growth and widespread prosperity when it takes place among economies of comparable size and industrial diversification. As James Galbraith puts it:

> Ricardo was wrong. Comparative advantage has very little practical use for trade strategy. Diversification, not specialisation, is the main path out of underdevelopment, and effective diversification requires a strategic approach to trade policy. It cannot mean walling off the outside world, but it is also a goal not easily pursued under a dogmatic commitment to free trade. Indeed none of the world's most successful trading regions, including Japan, Korea, Taiwan, and now mainland China, reached their current status by adopting neoliberal trading rules. (Galbraith 2008)

The India of the 1980s and 1990s was in a much better position to benefit from globalisation than that of the 1960s and 1970s, when infant industry arguments had meaningful relevance, whatever the free-market fundamentalists might say. As Dani Rodrik (2012) has shown in his masterly *The Globalisation Paradox* (which presciently warned against the dangers of hyper-globalisation), the US itself did not practise free trade during a comparable phase of its own industrial development during the 19th century.

A Different Approach

Just as we find Raj here pleading for greater humility among the practitioners of economics, we also must note his acute discomfort with the trend towards narrowness of vision and concerns in the economics profession in the 20th century. In a remarkable passage in an early Centre for Development Studies working paper titled "Village India and its Political Economy," he argues for a more transdisciplinary approach, alive to questions of power in society:

> There is an important set of issues that economic theory has not squarely faced but which one cannot escape from, when dealing with Indian village economies. It concerns the role of power and social values in determining what choices are open to whom and how far they can go in exercising them. In the days when it was common to describe the subject as Political Economy, the power exercised by different classes of society and their social values were recognised explicitly as important factors governing both resource utilisation and income distribution. But such non-quantifiable and otherwise inconvenient dimensions have not received similar attention since then, and as more rigour and scientific respectability were sought to be given to it under the new nomenclature of

> Economics, they have come to be treated merely as exogenous elements more or less on a par with climate and culture. (Raj 1976b)

At the same time, Raj was at pains to emphasise the need to factor in the specific features of the context being studied, while applying theoretical frameworks developed in very different socio-historical contexts, not only across nations but also within a country as diverse as India:

> When markets are inter-locked in this way through price or non-price links, as Professor (Krishna) Bharadwaj has observed, "such interlocking of markets increases the exploitative power of the stronger sections because, while there could be limits to exploitation in any one market—due to traditions or conventions or due to economic factors—the interpenetration of markets allows them to disperse exploitation over different markets." (Raj 1976b)

Raj was acutely aware that if we continue to ignore the crucial role played by caste relations in village India, economic theory would keep providing us such misleading answers that policy would persist in barking up the wrong tree! And he concludes the paper by expressing serious reservations about the state of economics as a discipline, words that continue to ring true even today:

> Despite weighty considerations of this kind, it is not clear how much impact they have had on the profession and its work in this area. One has the impression that the majority still find it easier to play the game by the conventional ground rules laid down and approved of by those who invented the game. The alternative, of course, is to follow the much harder path of first studying empirically in depth the complex structures and inter-relationships characteristic of traditional agrarian economies, before attempting to advance general theories and explanations relying on the methods of conventional economic analysis. (Raj 1976b)

He returns to these themes a few years later in a paper written in honour of V K R V Rao, the economist who did a similar investigation (Rao 1952) of the applicability of Keynesian ideas to agrarian economies in a path-breaking paper that was standard reading for students of development economics for decades. In my assessment, Raj's paper written 27 years later contains even more significant insights. As Raj argues:

> How the markets are structured, which of them are the crucial ones, and how exactly they function and interact with others, are likely to differ not only from one phase of historical evolution to another but even as between different regions in an agrarian economy. Further complications are introduced when (as often the case may be) a small section of rural society dominates a number of factor and product markets simultaneously and these markets are linked by price as well as non-price links, since the differential positions of the participants in any particular market cannot be fitted into the conventional models of monopoly and monopsony and absorbed into the framework of general equilibrium analysis. While Keynesian economics, as also general equilibrium analysis, have some insights and clues to offer, their uncritical use without paying adequate attention to these vital features of agrarian economies is still unfortunately all too common today, concealing a great deal of superficiality behind a facade of theoretical elegance and sophistication. (Raj 1979)

Current Farm Crisis

This is, of course, a very large question beyond the scope of this essay. But at least this much we can say with a high degree of confidence: Raj would have urged us to take a much more comprehensive view of the problem and not merely restrict ourselves to interventions in the product market. Based on his understanding of interlocked markets, he would have wanted multiple interventions in the credit, labour, input, land-lease and land markets, to go hand-in-hand with what we do in the market for farm produce. What is more, he would have wanted these "reforms" to necessarily address the profoundly unequal balance of power in each of these markets, rather than be blinded by a fundamentalist notion of reform implying lesser state intervention, which would amount to giving farmers more "freedom to be exploited."[2] Indeed, in Raj's vision, freedom of choice for the weak and excluded squarely lay in the direction of state support to those who have historically suffered for centuries within exploitative social structures, which had excluded many of them from landownership and forced most of them into relationships of profound inequality and discrimination.

Perhaps the best exposition of this in the literature is by Amit Bhaduri, who provides an insightful account of how this system of interlocked exploitation works against small and marginal farmers.[3] As Bhaduri (2006) argues, the only collateral these borrowers can offer is future labour service, future harvest or the right to use already encumbered land. The lender is in a powerful position to undervalue these not easily marketable collaterals. This transfers the risk of default from the lender to the borrower. Monitoring is no longer an issue as the borrower is far more worried about losing the collateral than the lender is. And there is great incentive for charging usurious rates of interest because default will only mean that the lender grabs the asset offered as collateral. The moneylender could even be said to prefer default to repayment. This is an extraordinarily ingenious but utterly exploitative relationship, which has sustained itself over centuries in India.

Clearly, then India's farm crisis demands multiple interventions in all these markets, most especially the credit market, which we will now explore at some length.

Bank Reprivatisation

At a time when there is an almost universal clamour in favour of reprivatisation of public sector banks (PSBs), I think it would be a singular service for us to listen again to the iconoclastic voice of wisdom embodied by K N Raj, who played a key role in providing the intellectual case for the nationalisation of banks in 1969.

Raj begins, as always, with the basics: what are the questions monetary policy should concern itself with? Raj said these must include:

> (i) how much credit is to be made available by banks to borrowers, (ii) at what rates of interest (iii) to whom among the potential borrowers and on what criteria, and (iv) for what purpose. (Raj 1974: 302)

Historically, Raj suggests, monetary authorities appear to have restricted themselves to just the first two questions. The standard textbook answers to questions (iii) and (iv) imply that credit is to be extended only to those who are "creditworthy" and that only short-term loans are to be given for "productive purposes," with tangible evidence of the "self-liquidating" character of the loans

taken. In actual practice, these decisions have been left to the discretion of privately owned banks acting in their self-interest. But private banks operating in an imperfect credit market would only aggravate already existing imperfections. Which is why, Raj argues, monetary authorities should also engage with questions (iii) and (iv):

> They should be interested in improving the allocation of resources as between the competing requirements of different sectors of activity, types of enterprise, and production units. (Raj 1974: 305)

Here Raj first draws upon the work of the Polish economist Michal Kalecki. As Raj says:

> An important reason for imperfection in the money and capital markets—apart from uncertainty about the future and considerations of favouritism attributable to the lending decisions of banks associated with particular business interests—has been given by Professor Kalecki and remains uncontradicted by empirical evidence. Professor Kalecki has spelt out also the consequences of such imperfection on the scale of investment and size of firms. (Raj 1974: 303)

In the words of Kalecki:

> The access of a firm to the capital market is determined to a large extent by the amount of its entrepreneurial capital. The most important prerequisite for becoming an entrepreneur is the ownership of capital … firms below a certain size have no access whatever to the capital market … a state of business democracy where anybody endowed with entrepreneurial ability can obtain capital for starting a business venture is, to put it mildly, unrealistic. (Kalecki 1954: 91–95)

Thus, Raj concludes,

> To the extent that the ability to borrow is limited by the amount of own-capital already possessed by entrepreneurs or by other imperfections in the money and capital market, and differences in the rates of interest do not necessarjly reflect differences in cost, the allocation of investible resources by the market cannot possibly be anywhere near optimal. (Raj 1974: 304)

This is because "banking enterprises seeking to maximise their profits would not venture out into areas and sectors of activity to which high priority needs to be attached from a larger social and economic point of view" (Raj 1974: 308). Rural credit is not merely a commodity that needed to reach the poor to free them from usurious moneylenders, it is also a public good critical to the development of a backward agrarian economy like India.

Building the theoretical case for bank nationalisation further, Raj draws upon John Maynard Keynes. In the *General Theory,* Keynes expresses the same problem a little differently. He suggests that there are two types of risks that affect the volume of investment which it is important to distinguish. The first is the entrepreneur's or borrower's risk, which arises because they are unsure whether the business venture will provide the expected yield. As borrowers, they would want a low rate of interest, especially if the venture is a risky one. But the same situation creates the "lender's risk" of default by the borrower, which can either be voluntary ("moral hazard") or involuntary (due to poor returns on investment). This means that the lender must charge a rate of interest high enough to induce him to lend. Keynes expresses the resulting social dilemma somewhat poetically:

> the hope of a very favourable outcome, which may balance the risk in the mind of the borrower, is not available to solace the lender. (Keynes 1935: 145)

Applying the insights of Keynes and Kalecki to a deeply unequal agrarian economy like India, Raj argues

> One of the great merits associated with private enterprise is supposed to be that it is enterprising … It is not generally recognised, however, that the very basis of profit-making in banking activity sets limits in underdeveloped economies to the enterprise it can display. (Raj 1974: 309)

There are high information and transaction costs of dealing with many small borrowers that act as a major disincentive.[4] Also profitability of banks is greater the higher "the proportion of their earning assets to the idle cash reserves they have to hold" (Raj 1974). Hence, servicing large numbers of customers who insist on payments in cash on the spot, means higher idle cash reserves of banks and lower profitability. Raj showed that mere legislation and control had not led to an "optimal allocation of investible resources" (Raj 1974: 307).

Thus, he concluded, nationalisation of large banks was the only way forward. Raj was aware that "the bureaucratic element in decision-making may introduce considerable rigidity" and acknowledged that "the danger of such rigidity is indeed considerable within the framework of nationalised banking." But he hastened to add:

> in large private banks the element of impersonality, with all the rigidity it introduces, is almost as great as in the case of state-owned banks, except in case of favoured customers known to the bank … The larger private banks are no less impervious to the needs of small customers who have no security to offer. (Raj 1974: 311)

To historically contextualise the theoretical case Raj made for nationalisation, it is useful to remember that government control over banking was the norm in most low-income countries in the four decades after the World War I (Burgess and Pande 2005: 3). Similar state-led rural finance programmes spread across the developing world in the postcolonial period. State control over banking to act as an engine of structural change and of the attack on poverty was part of the orthodoxy of development economics at that time (Besley 1995). La Porta et al (2002) assemble data on government ownership of banks around the world, which show that such ownership is large and pervasive. In the average country, more than 40% of the equity of 10 largest banks remained in government hands even in 1995.

More recently, after the financial crisis of 2008, with widespread revulsion against Wall Street, a public banking movement has taken off in the US, taking inspiration from the Bank of North Dakota, the only public bank then operating in the US, with a highly successful economic record since its creation in 1918, fostering economic development

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and meeting the needs of students, small businesses, community banks, disaster relief, and long-term government infrastructure planning. A non-profit Public Banking Institute was set up in 2011 to advance the cause of public banking nationally (Public Banking Institute 2021).

India's own experience stands testimony today to the wisdom of Raj's arguments.[5] The 1961 Census had shown that only 50% of India's towns and almost none of our villages had bank branches. In 1969, the National Credit Council, set up to guide the branch expansion programme, found that not even 1% of India's villages were served by commercial banks. It also noted that while industry accounted for a mere 15% of national income, its share in commercial bank credit was nearly 67%. On the other hand, agriculture that contributed 50% of gross domestic product virtually got nothing from banks. After nationalisation, the number of rural branches of banks increased from a mere 1,443 in 1969 to around 35,000 in the early 1990s. Most of this increase was in unbanked areas. The number of banked locations rose in this period from around 1,000 to over 25,000. The share of rural branches went up from 18% to 58% during the same period. Between 1961 and 2000, the average population served by a bank branch fell from around 1,40,000 to just under 15,000. The rural credit–deposit ratio went up from under 40% in 1969 to nearly 70% in 1984 and remained over 60% until the early 1990s. The share of "priority sector" advances in total credit of scheduled commercial banks went up from 14% in 1969 to around 40% by the end of the 1980s. The share of agriculture had reached 19% by 1985 and remained around that figure until 1990. The number of agricultural loan accounts increased from around one million in the early 1970s to nearly 30 million by the early 1990s. Within agriculture, 42% of the credit went to small and marginal farmers. It is the easier availability of credit that fuelled the investments that drove India's Green Revolution and even today it is these banks that are the biggest formal source of credit at tolerable interest rates for the poor in rural India.

Of course, as Raj had anticipated, many very serious issues have come up with public sector lending, which call for several reforms because the policy of "social coercion" adopted after bank nationalisation achieved only limited success. And dependence on usurious rural moneylenders actually grew after strict profitability norms were applied to PSBs in 1991. But over the past 10–15 years, very promising progress has been achieved in many parts of India in resolving the trade-off between access to affordable credit and banking profitability. This has happened through the democratisation of formal credit, made possible by the programme of linking women's self-help groups (SHGs) with PSBs. This partnership has made inexpensive credit available to the poorest sections of rural India, as banks have been able to reduce transaction costs and improve their profitability because of the extraordinary repayment record of SHGs.

I have been personally involved in the formation of thousands of SHGs over the past several years through my organisation Samaj Pragati Sahayog, working in the most deprived parts of central tribal India (SPS 2019). These SHGs, with their impeccable financial discipline, have not only transformed the lives of lakhs of really poor people but also helped so many PSB branches to gain profitability. We shudder to think of what will happen to these SHGs and their members once these banks are privatised, as proposed in the union budget of 2021. India's most powerful instrument in the battle against poverty could be deeply compromised, since in our long experience so far, we have never found any private bank willing to even contemplate lending to SHGs in these remote areas. We must also worry about how the impetus to universal financial inclusion, still a distant goal, could falter as a result of bank privatisation. Rather than privatisation, what is urgently required is bank reforms to improve the quality of their relationship with SHGs and much greater state support to the SHG–bank linkage programme so that it can reach critical mass and be able tackle the root of the problem, which lies in unregulated, free credit markets, which are so deeply exploitative, precisely because they are free!

Those arguing for privatisation of PSBs overlook the fact that many of the problems facing PSBs have arisen precisely through the agency of the government itself, which has had a truly mercenary relationship with PSBs in recent years. As fiscal stimuli have taken a backseat within the orthodoxy of austerity and with primacy being given to monetary policy, PSBs have been repeatedly forced to undertake populist measures such as loan waivers[6] or finance infrastructure projects, without requisite due diligence, which have damaged the very integrity of the banking system. Such big-ticket loans have only led to burgeoning of non-performing assets (NPAs), which are then seen as a blemish in the performance of PSBs, not recognising where the NPAs actually originate. Real PSB reform will lie in giving them greater autonomy and professional capabilities, rather than their privatisation, which could well be a real disaster in the making. As Raj argued, in almost prescient anticipation of the many instances of crony capitalism, which have played out closer to our time:

> Far too much faith has also been placed in India on the ability to detect and check, through direct supervision and control by the Reserve Bank, discriminatory lending by private commercial banks in favour of particular parties. (Raj 1974: 310)

Conclusions

Revisiting Raj and reading him again has not only been a pleasure but also a salutary reminder of where economics as an academic discipline has gone but where it really needs to go. I am not making an argument against rigour or parsimony, both of which are redeeming features of any scientific discipline. But, as Raj warned, when parsimony gets placed at such a high pedestal that it begins to lose touch with reality and when rigour is defined in terms so narrow, that it obfuscates more than it illuminates, then that is clearly an occasion for serious reconsideration of where we are going as a profession. Contrary to those who argue for value-neutrality in science, Raj is also alerting us to the need to

ground economics on a sound ethical footing. He would have found much solace in the words of Jean Tirole (the 2014 Nobel Laureate in Economics) which I always read to my students and with which I will end this essay:

> Economics is not in the service of private property and individual interest, nor does it serve those who would like to use the state to impose their own values or to ensure that their own interests prevail. It does not justify economies based entirely on the market nor economies wholly under state control. Economics works toward the common good; its goal is to make the world a better place. To that end, its task is to identify the institutions and policies that will promote the common good ... As absorbing as academic economists might find their intellectual life, collectively their research must also be useful to society.

I place economics within the humanities and social sciences, of which it was part until the end of the 19th century. In the 20th century, economics developed independently through the fiction of *homo economicus*: the hypothesis that decision-makers (consumers, politicians, and enterprises, for example) are rational, in the straightforward sense that they act in their own best interest—most often understood as their economic interest—given the information they have available. In reality we are all biased in our thinking and our decision making, and we all have goals beyond our material self-interest, which is not something we pursue systematically.

Above all, economists must explain what they are good at—and what they are bad at too—and, with humility and conviction, harness economics for the common good (Tirole 2019: 8).

I sincerely hope all students and teachers of economics will move forward this agenda within the transdisciplinary tradition of political economy, never taking their eyes off the gravest problems of our time, especially those afflicting the people and causes without a voice, which were always the ones closest to K N Raj's heart.

NOTES

1 "This note relates the change in the county-level Republican two-party vote share between 2000 and 2016 presidential elections to the growth in Chinese import penetration. We find that rising import competition was a robust positive contributor to Republican vote gains. A counter factual exercise indicates that the Democrat candidate would have won the states of Michigan, Wisconsin and Pennsylvania—resulting in a majority of votes in the electoral college—if the growth of import competition from China had only been half as large as actually observed" (*A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Election*, Appendix to Autor et al 2020).

2 For an illuminating discussion on the deeper philosophical issues involved here, see Ellerman (1995) and the discussion therein of Henry Hughes' remarkable 1854 apologia for slavery in the American South (*Treatise on Sociology, Theoretical and Practical*).

3 Amit Bhaduri was kind enough to go through an earlier draft of this essay and confirmed that Raj played a key role in shaping his own understanding of these issues.

4 Stiglitz has extensively argued how asymmetry of information induces profit-maximising banks to exclude "riskier" borrowers (in our context poor farmers) and practice "credit rationing" (see especially Stiglitz and Weiss 1981).

5 The evidence in this section is drawn from Shah et al (2007).

6 Raj was bold enough to question the "loan *melas*" that had already become fashionable in his time and ultimately left banks with huge debts and created a culture of non-repayment of loans, as he had anticipated (Raj 1981).

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