

# TD 463

## Lecture 7

### *The Market and the State*

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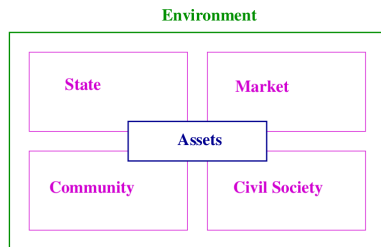
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# Objectives

Let us attempt to classify social structures broadly, on (i) the types of transaction and (ii) *complex* collectives of agents.

- **Key Social Components:**  
Classification of agents based on kind of transactions.
- **Assets:** Tangible and intangible, historical.  
Constructed or natural.



## The Environment

The ambient space, the source of all basic values, of natural history.  
The satisfaction of all basic needs. **The culture of seasons, life on earth and enchantment.**

# The village economy

- **Agents:** peasant, sarpanch, elders, kulkarni, mahar, patil, balutedars.

Agent	Role
Peasant	Agricultural Production
Saldar	Landless, assistance to Peasant
Sarpanch	External and internal affairs
Elders	Advise on largely internal matters
Kulkarni	Taxes, land records and village accounts
Mahar	Village repairs and public amenities
Patil	Law and Order (along with Mahar)
Balutedars	Services such as blacksmith, potter, barber, leather works, goldsmith

- Note that the **brahmin** is outside the village economy *but is within the village society*. His role varied from village to village, and also by community.

# The Components

- **Community and culture.** The first social aggregation. Formal and informal roles.
- **The State.** Based on *politics*. Power, monopoly of violence, support of private property, collective action, enforcement of contract, rule of law.
- **Market.** Production of commodities. Division of labour. Money and capital. Markets as an institution.
- **Civil Society.** Based on trust, kinship, prestige, the arts, *kala, shastra, vinod*. Role models. Mythology and History. Maintenance of knowledge and culture. Seasons and natural history.

# History of Production and Exchange

- We have always *produced* or *procured* material goods, utilized them for our self-use, and stored, gifted or exchanged what we don't need.
- This choice depends on the perishability of the good, social or cultural modes and finally, the availability of a useful good with the other party.
- **Agriculture**. The first commodity which was meant to be stored and utilized at a later date to **increase leisure**.
- This **momentary surplus** was **appropriated** under the threat of various agencies, and then later under a social contract, and finally through the market.
- Empires and their reliance on agricultural surplus. The introduction of money through the salary of the army, the transportation of the surplus by merchants.

# History of Markets

- **Exchange** and then **Trade** and **Emergence of money**
  - ▶ **goods**: gifts and presents, mutual assistance, services, surplus, production for trade
  - ▶ totemic money, credit and account-keeping
  - ▶ **coinage**: taxes, armies, levies, mercantile money
  - ▶ fiat money, banks and **creation of money through leverage**  
-monetary theories
- **Markets in India** - partly monetised commodity exchanges through jatras and weekly markets, credit system in services through balutedari, the kirana, the Mall!
- **Money Markets in India** -taxes, credit system in services through balutedari, the savkar, share-cropping, SHG, banks.
- Trajectory of money Credit+Accounting  $\Rightarrow$  Stored Surplus  $\Rightarrow$  Authority to demand  $\Rightarrow$  Right over Future production
- **Emergence of Price**: Does it exist? Or is it a mathematical luxury.

# The City

- **Medieval Empire Cities.** Seats of power. Accumulation of wealth. Much safer but periodic plunder. *Aristocratic culture.* Managed trade and production of cultural goods. Specialists. Delhi, Agra, Hyderabad, Bijapur, Pune.
- **Medieval Regional Cities.** *Sansthaniks and Rajas.* Different atmosphere. More cultural, local artisanship, trade, lower taxes. Pune, Baroda, Kolhapur, Gwalior, Jaunpur.
- **Cultural Cities.** Places of learning, trade, religion. Production of cultural goods. Mercantile trade. Taxila, Nalanda, Poompuhar, Benaras, Thane, Bijapur.
- **Modern View:** centralized trade, services, state, judiciary. Schools, culture, city-life. District places.
- **Sectoral Cities.** Pune, Bangalore, Hyderabad, Ahmedabad.

# The Elements of the Economy

- production of commodities and services and its distribution.
  - ▶ **tools of production**, i.e., which is used to produce services or commodities.
  - ▶ For example, a truck is a tool to provide *transport*, which is a service.
- presence of money, i.e., a token of indebtedness, value and surplus.
  - ▶ before money: exchange among known people, presents, gifts
  - ▶ institutions, such as companies, brokerages, regulatory bodies.
- Modern day: corporations, employees, simple transactions based on money



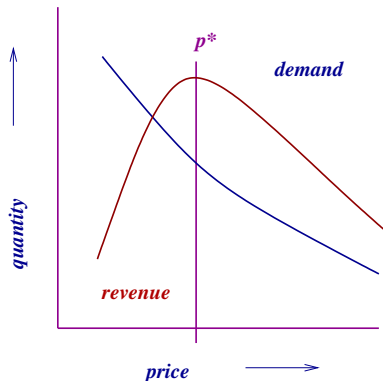
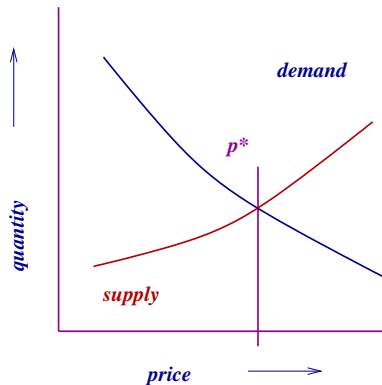
# Modern markets

- **Information Belief**: Price as the key signal.
- **Efficient**: Believed to be efficient in allocation of resources
- **Non-discriminatory**. Transactional without history, anonymity , commodity with utility vs. cultural artifacts.
- **Philosophical belief**: fair and rational, neo-classical and analytic.
- **Globalization**. Primacy of freedom to trade over other systems. Tacit support of **Big Science**.

## Key Development Questions

- Is **non-differentiated** but **branded** commodity production stable and sustainable?
- Will it reach everyone? Will it employ everyone? Or is **cultural production** the way to go?
- Is Big Science the best way of supporting knowledge and commodity production?

# Market failure



- The problem of consumer and producer surplus in ideal markets.
- The revenue maximization price and exclusion.
- What if entry costs are high?

# The State or the government

- The primary role, in a democratic framework, is to regulate violence, maintain law and order, enable and enforce contracts, and protect property rights and individual dignity.
- Its second role is to enable collective action, e.g., in public transport or a water supply system, a large dam and others,
- to regulate the activities of market agents and *occasionally of civil society*.

Such collective action allows for a a need of individual households to be met more for people, perhaps more effectively or efficiently or more equitably.

- **Authority of the state**: elected representatives who enact laws.
- the executive (bureaucracy) and the judiciary.
- the **police** and the monopoly on violence.

# The Indian State

- Federation system of states with a a central government with two houses, viz. the Lok Sabha or direct representatives, and the Rajya Sabha.
- Each state has a state legislative body with a representative (MLA) from a constituency: one tehsil (in Maharashtra).
- Moreover, there are *division of duties*, i.e., activities which only the center may do (e.g. run the defense ministry, some which only the state may do (e.g., rural development functions), and some are concurrent, i.e., both may do.
- **Water, Higher Education is in the concurrent list. Much of R&D, S&T with Center.** Health, School Education, PDS, Electricity in the State List.
- **Taxes.** Income, Customs, Corporate. **GST.** **Local taxes.** Distribution by Finance Ministry.

# The Organization

Level	Bureaucracy	Elected
Center	Cabinet Secretary	PM
	Secretary	Minister
State	Chief Secretary	CM
	Secretary	Minister
District	Collector, <b>DPC</b> CEO, ZP	<i>Guardian Minister</i> , MPs <i>Zilla Parishad</i> , MLAs
Taluka	Tahsildar, BDO	Panchayat Samiti
GP	Gram Sevak	Sarpanch and <i>gram sabha</i>

- **IAS**. Accountable only to the Center. Controls all payments, orders, major transactions. **State can only transfer**.
- Central Ministry coordinates with State ministries. Central programs such as NREGA, SBA.

# The District

- Important level, after village, is the *district*.
- Administrative head: **District Magistrate and Collector**. **Ultimate Authority**
  - (i) all matters related to land and revenue, fines, penalties and regulation, extraction of natural resources and their distribution, sales of goods and so on,
  - (ii) police functions, arbitration and elementary interpretation of the law, Esp. when one of the parties is the state, and
  - (iii) development functions such as water supply, health, education and so on.
- assisted by the district superintendent of police (SP) and the CEO of the Zilla Parishad, respectively.
- Aided by collectorate, and heads of ULBs.
- Statutory body is the **District Planning Committee**

# The 73rd amendment

- 73rd Constitutional amendment brought three major changes:
- *gram panchayat* (GP) as an elected body for each *village*, and the *gram sabha* as the final authority over the gram panchayat decisions,
- it produced a list of activities over which the gram panchayat should have primary control, and finally
- it set up a mechanism for the GP to access state and central funds and to collect local taxes.
- Besides this, it also strengthened the *Zilla Parishad*, an elected body at the district level with some limited powers to tax.

# The Citizen and the elected representative.

- Central acts such as RTI, RTE.
- Provisions in the constitution, e.g., reservations, freedom of speech and religion.
- Employees of the state are accountable to the legislative body of representatives and thus to the citizens. Since an MLA may represent over 5 lakh people, accountability may be quite thin and the familiarity of the MLA with the local issues may not be much.
- Very thin accountability of IAS to ministers, MLAs, except to CM and Chief Secretary
- Very little discretionary funds for MLAs. OSDs for Ministers. Very little support for research and analysis.



# Exercises

**Exercise.** Identify examples of development problems and see what of the four failures apply to these. Identify the agents, roles, objectives and processes and mechanisms carefully.

**Exercise.** Suppose that you were hired to improve the hostel-mess service. Go through the development professional loop and make a brief analysis of the issues involved and the activities. Try this out for IIT admissions process.

**Exercise.** Study the Jalyukta Shivar and the Unnat Maharashtra Abhiyan GRs. Make a stakeholder diagram and classify various processes and stakeholders.

# Thanks

