THE NEED TO PROTECT PETTY PRODUCTION

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The States that came into existence in a number of third world countries after decolonization made it a point to protect petty production against encroachment by corporate capitalism, both domestic and metropolitan. Controls on imports and on the inflow of capital were typically used as protection against encroachment by metropolitan capitalism. A policy of "reservations" was used to prevent encroachment by the domestic capitalist sector on petty industrial production. In the agricultural sector, the State came to the aid of petty production in a variety of ways, from protection against imports and the provision of cheap credit and subsidized inputs, to the institution of minimum support prices backed up by State procurement.

A hallmark of the "neo-liberal regime", which replaced the *dirigisme* introduced in the aftermath of decolonization, is that this support-cum-protective shield around petty production, including both peasant production and production by artisans, by family-based industrial units, and even by small capitalists, is withdrawn. The entire sector of petty production and small-scale enterprise gets exposed to "competition" from both the domestic large-scale capitalist sector and from metropolitan capital whose products now enter the domestic market freely in the wake of import liberalization. This is usually defended in the name of "efficiency". But there are two obvious problems with this justification. First, in situations where perpetual full employment is not achieved, the closure of even micro-level-inefficient, high-cost, units cannot be justified in the name of "efficiency", since such closure does not necessarily represent a Pareto-improvement. Secondly, there is no clear evidence of the micro-level "inefficiency" of small-scale production units, in the sense of their having higher product wages relative to labour productivity, compared to large-scale capitalist units[1]. Of course, the fact that petty production is ousted through competition is usually supposed *ipso facto* to prove the inefficiency of such production, but, quite obviously, this fact itself signifies nothing about efficiency. Nonetheless, it is argued that far from shedding any tears over the disappearance of such "inefficient" production units in a liberalized trade regime, we should, on the contrary, make every effort to ensure that such "inefficient" units do not survive, so that the country can emerge as a more effective competitor on the international arena. This indeed is the explicit logic behind the current effort to do away with the policy of "reservations" for small-scale production in India[2].

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[1] There is of course a serious problem in comparing labour productivity across units differing in their scale of production, since they do not in general produce identical goods. And if one has to compare labour productivity by bringing in prices, then the whole question of monopoly power enters into productivity. comparison itself. This is another important reason why labour productivity comparisons between large capitalist and small capitalist units, or between capitalist and petty units are problematical.

[2] Government of India, Planning Commission, *Approach to the Eleventh Five Year Plan,* p. . The fact that according to the recent economic Census in India both employment and the number of producing units in the unorganized sector have increased rapidly in the rural areas, may appear ro contradict what was said above about the ousting of petty production in the neo-liberal regime. But this apparent growth is likely to

The purpose of this paper is to argue that in a situation where unemployment is generated through the disappearance of small-scale production, *even if small-scale units are more inefficient at the micro-level,* in the sense of having higher unit prime costs, or higher product wages relative to labour productivity[3], not only does the "efficiency" argument in favour of their closure not stand, but, what is more, the protection of small-scale production constitutes the desirable policy for the economy.

I

Let us consider an economy which is closed to trade, to start with. While our argument concerns petty production, we shall for simplicity of exposition, assume in our formal discussion that all production is carried out with wage labour, that labour is the only current input, that the wage rate per unit of homogeneous labour is the same for all production units, and that small-scale production (which is the proxy for petty production) *is indeed more inefficient* in the sense of having higher unit labour costs compared to the large-scale capitalist units. In fact, in all units employing homogeneous unskilled labour, we shall take the level of unit labour cost as being identical with the degree of "smallness". The exception to this is where units employ skilled labour. In such cases even though the unit labour cost may be identical between two units, the *number of labourers per unit output* may differ across them, being smaller for the unit employing skilled labour (which has higher productivity). In these latter cases we assume that the number of labourers per unit output is monotonically associated with the degree of "smallness". These two criteria in turn must be made commensurable if we are going to discuss movements in the overall degree of "smallness" of units in the economy as a whole. *We do so by postulating that any reduction in the number of labourers per unit of aggregate output (in wage units) represents a reduction in the degree of "smallness" of the economy.*

In such an economy, with given money wages, given profiles of inherited capital stock in each sector, given level of investment in wage units, determined by investment decisions taken in the past, and given propensities to save out of wages and profits, there is a certain level of employment and income in wage units that prevails in the single period (we are ignoring the government for the time being). At this level of income there is a price vector such that in each sphere price equals unit labour cost at the margin, and an output vector such that each sector's output is exactly at that level where its price equals the marginal labour (prime) cost. In short, in line with Keynes we assume market-clearing prices in each market, other than the labour market (where such prices may not

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be merely the outcome of the displacement of the agricultural population owing to the agrarian crisis which *is* the consequence of neo-liberal policies.

[3] Of course this criterion of judging of micro-level "efficiency" actually makes little sense. When petty producers depress their living standards to remain competitive, then this tragic fact is interpreted as their exhibition of "efficiency". But this is the "mainstream" economics notion of efficiency which we deliberately adopt here for argument's sake. For a critique of this notion see Utsa Patnaik "Neo-Populism and Marxism" in *The Long Transition*, Tulika, New Delhi, 1999.

even exist). As a result, the distribution of income between wages and profits is determined by the level of aggregate demand (given the profile of capital stocks)[4].

Now, suppose the economy gets opened up to trade. Then some units in the import-competing sector would go under, and these would *ex hypothesi* be the small units. Likewise some units in the export sector will get a boost, and these again could be small units. The sheer fact of opening the economy to trade does not necessarily therefore lead to a net diminution in the size of the small-scale sector. Such diminution, which can come about either through a reduction in the level of income as a whole, or through a reduction in the "degree of smallness" of the economy (through a reduction in the number of labourers per unit output), under three obvious circumstances. Each of these is associated with a reduction in employment compared to the base (pre-trade) level.
The first is when there is an import surplus. At a given exchange rate the world prices of goods can be expressed in terms of the domestic wage unit. Trade liberalization implies therefore a shift from one set of prices in terms of the wage unit (those which prevailed in the pre-trade situation) to another set of prices in terms of the wage unit (which get established after trade liberalization). If everything else, viz. the level of investment in terms of the wage unit, the share of profits in income, the saving propensities of the capitalists and the workers, and the average skill-intensity of output, remains unchanged, and *if trade is balanced,* then neither the income in terms of the wage unit nor the level of employment changes, compared to the pre-trade situation. In such a case there is no loss of space for small-scale production. But if, everything else remaining unchanged, there is an import surplus, then the level of income in terms of the wage unit and, with it, the level of employment, in the economy will shrink. And *ex hypothesi* this would mean a diminution in the level of small-scale activity.

Likewise, in the second case, even if trade is balanced but the expansion of some sectors and the contraction of others owing to the opening up of the economy to trade increases the *ex ante* share of profits at the old level of income in terms of the wage unit, then that acts in the direction of reducing the level of aggregate demand and hence the level of income. As a result, the level of employment is lowered, and there is a diminution in the size of the small-scale sector. Thus even balanced trade can lower the level of activity, especially at the "small"-unit end, if trade openness, by changing the sectoral composition of output, raises the *ex ante* share of profits (i.e. at the base income).
In the third case, even if trade is balanced and even if there is no change in the *ex ante* share of profits, and hence in the level of income in terms of the wage unit, the change in the composition of output in favour of skill-intensive sectors may result in a reduction in the number of labourers per unit of output, and hence give rise to a larger volume of unemployment (of natural persons) compared to the pre-trade situation. This is the case where income remains unchanged, but the "degree of smallness" of the economy declines owing to the shift to skill-intensive sectors ("smallness" here being a proxy for petty production and family based production, and skill-intensive production being associated with capitalism).

[4] We ignore here for simplicity any problems of multiple equilibria that may arise.

The three factors which underlie these three cases need not always act in the same direction, in which case what happens to the petty production, small-scale production sector will depend upon their conjoint outcome. But let us assume that they do act in the direction of shrinking this sector and generating unemployment relative to the pre-trade situation, which indeed does appear to be the case. Of course the actual shrinking of this sector in the post-liberalization era has much to do with the expenditure deflation by the government, a typical feature of neo-liberal regimes, and to the rise in input costs, including of credit, owing to the withdrawal of subsidies. But to develop the argument of the present paper, which can be adapted to these other cases, let us continue with the discussion of a shrinking petty production sector owing exclusively to trade liberalization.

II

In most writings in economics, when unemployment is created, what happens to the unemployed is scarcely ever discussed. In reality however the unemployed neither just drop dead instantaneously, nor just live on air. They survive on the basis of support from family, friends, and in contemporary times the State. The neo-liberal State, to be sure, is far-removed from the capitalist Welfare State of yesteryears, but even it has to make some provisions by way of unemployment relief. But even when it does not do so, it is still the case that unemployment entails a cost to the State. For instance, since unemployment typically has social consequences in the form of crime, and communal tensions, to handle such undesirable consequences, the State must spend more on "law and order". Thus whether the State is concerned about or negligent towards unemployment, the fact of unemployment involves it in a certain expenditure, which would not have otherwise occurred in the absence of this unemployment. Let us again, for simplicity of exposition, assume that this expenditure occurs immediately as unemployment is created, following the opening up of the economy to trade.

Now, the crucial point is this: *any such increased government expenditure will have zero multiplier effect on the domestic economy no matter how it is financed*. If it is entirely financed by government borrowing, then assuming that workers consume whatever they earn, it will give rise to an equivalent current account deficit on the balance payments, so that the borrowing will have to be from abroad. If it is financed partly by borrowing and partly by taxes, then too the entire excess of expenditure over what is released domestically owing to the additional taxes, will have to be borrowed from abroad. *But income in terms of the wage unit will remain unchanged despite the increase in government expenditure that would come about, owing to the creation of unemployment, following the opening up of the economy to trade.*

The reason for this is simple. With the world prices of goods and the exchange rate of the country in question given, the marginal labour cost in every sector of the domestic economy is equal to these world prices. The domestic income in terms of the wage unit, and domestic employment therefore, get fixed by this equality of world prices with domestic marginal labour costs. As long as the money wage rate, the exchange rate, the conditions of production in the domestic economy, and the vector of world prices are given, the domestic output and employment cannot change. And if any additional demand

is generated in the economy at this level of output, then that necessarily spills over into an import surplus. It necessarily has zero multiplier effect on the domestic economy and is necessarily financed by net foreign borrowing.

The undesirability of this course of action, of exposing an economy, where unemployment entails a cost (as it invariably does), to unrestricted trade, becomes obvious, if we, for a moment, assume that the additional government expenditure per unemployed person is the same as the wage rate. Of course the expenditure will be less, but let us, for simplicity, assume, to start with, that it equals the wage rate. Then opening the economy to trade merely amounts to creating unemployment and paying the wage bill of the workers who have become unemployed, by resorting to external borrowing. This is clearly worse than paying the wage bill of the same workers through domestically generated additional output, by employing them in domestic production through the imposition of a tariff on imports. In both cases the workers originally rendered unemployed are getting the same wage-bill, but in one case this is being financed through external borrowing, while in the other case it is being financed out of an increase in domestic income. On the very reasonable presumption that achieving something by borrowing from abroad, which could be equally well achieved without such borrowing, is undesirable, the free trade solution is distinctly undesirable. In addition, the presumption that social parasitism is undesirable, that a person earning an income should work for it, *when others are working for their incomes,* rather than getting it for nothing, works in the same direction. On both counts free trade is undesirable.

There is an additional factor. If an import tariff is used to generate employment, so that the overall magnitude of employment is left at the pre-trade level, then there will be no need for any *unemployment-caused government expenditure*. But government expenditure nonetheless will go up, *without causing any increase in external* borrowing, and can be used for welfare purposes. This is because as employment increases to the pre-trade level through the import tariff, there will be an increase in the amount of profits in the economy compared to the pre-tariff level and hence in the amount of savings. A part of these savings will be used up through the fall in imports owing to the tariff (and hence a rise in the trade balance); the rest will have to be used up through an increase in domestic-borrowing-financed government expenditure.

Thus, if the consequence of the opening up of the economy to free trade is unemployment, and if the effect of unemployment is to be mitigated, then there are two ways of doing it. The first is to maintain free trade and increase government expenditure; but this enlarges external borrowing. The second is to put an import tariff which will restore employment to its pre-trade level by increasing output. But at this higher output there will be higher savings which will be absorbed (with given investment) partly through an enlarged trade balance relative to the free trade situation and partly through an increased domestic-borrowing financed government expenditure that does not have to be used either as compensation to the unemployed (or for offsetting the impact of unemployment) but is available as something extra. A tariff-based solution to unemployment therefore has three advantages over a government-compensation-based approach to unemployment: first, it does not enlarge the economy's external debt while enlarging employment; second, it improves on the contrary the country's net creditor

status (by improving its trade balance compared to the free trade situation); and third, it permits an expansion in government expenditure which can be used for welfare purposes.

And when we are talking of government expenditure incurred *not* as compensation to the unemployed, but as mitigation of the consequences of unemployment, such as on "law and order", then the imposition of a tariff has a fourth advantage, namely it overcomes unemployment itself, and the misery of the unemployed.

Of course if a tariff is imposed, this may produce retaliation by others, in which case exports will suffer. But the workers rendered unemployed by the decline in exports through retaliatory tariffs, can always be absorbed in domestic production by raising the rate of import tariff, so that the economy will ultimately converge to the pre-trade autarkic situation. In short, the undesirability of unemployment from a social point of view (captured here by postulating some additional government expenditure per unemployed person), and the undesirability of incurring external debt to finance expenditure that could be equally well financed from additional domestic income, combine to ensure that *if trade generates any unemployment then it is undesirable compared to the pre-trade situation; and the process of rectifying the effects of trade, in a world where other countries do not meekly accept one country's trade restrictions but resort instead to retaliation, will necessarily lead to a restoration of the autarkic, pre-trade situation.*

Lest it be thought that this result follows from our assumption that additional government expenditure per unemployed person is the same as the wage rate, let us see what happens if we relax this assumption. If n is the initial unemployment generated through trade, let the additional government expenditure generated be (a.w.n), where $a<1$. Now as long as $a > 0$, there will be an increase in the import surplus, and hence in net external indebtedness, which, on the assumption that such expenditure is an addition *in toto* to aggregate demand, is exactly equal to the increase in government expenditure (a.w.n). If the government wishes to avoid getting the economy into higher external debt, and hence imposes a tariff to overcome unemployment (otherwise the economy *will* get into higher external debt), exactly the same results as stated above will follow.

III

A point should be clarified here. Suppose the cause of unemployment following the opening up of the economy to trade is an import surplus. Then this import surplus will have to be financed by external borrowing anyway. This is the process of *debt-financed deindustrialization*[5], that is, when the economy experiences higher unemployment because of an import surplus financed by debt. *But the increase in external indebtedness which we have discussed so far is over and above this increase in external indebtedness arising from the initial impact of trade liberalization.* There are in other words two distinct and separate reasons for external indebtedness, which are additive. The first is because of an import surplus following trade liberalization which is financed by external

[5] This process of debt-financed deindustrialization is discussed in my paper "On the Economics of Open Economy Deindustrialization", *Indian Journal of Labour Economics,* Conference Volume, 2005.

debt. The second is where the unemployment caused by this import surplus gives rise to additional government expenditure, which, to the extent that it is not financed by restricting other components of aggregate demand, has again got necessarily to be financed by a further increase in external indebtedness. The matter can be expressed algebraically as follows.

Let us assume for simplicity that all wages and a fraction c of post-tax profits are consumed. Assuming for simplicity that all government expenditure is financed by borrowing and expressing everything in wage units, we have

$$Y = E + c(Y-E) + I + G$$

to start with (when the economy is closed to trade), with the symbols having the usual meaning and E denoting employment (wage bill expressed in wage units). With I and G given and

$$Y = f(E),\ f' > 0, \text{ and } f'' < 0$$

output and employment are determined. Now if the economy is opened to trade, and there is an import surplus then E must fall. (With trade there will be a change in the composition of output and hence in the f-function but since the basic argument is unaffected by it, we shall ignore this issue).

$Y = E + c(Y-E) + I + G + (X-M)$, where $(X-M) < 0$ and $Y = f(E)$ as before. Here, not only will unemployment increase but (M-X) will have to be financed by external debt. Let us denote this "liberal-trade" Y by Y* and "liberal trade" employment by E*. Let n denote the difference between pre-trade employment and liberal-trade employment, i.e. $n = (E-E^*) > 0$. And let us now denote all variables as deviations from E*, Y*, using lower-case letters to denote such deviations. We have

$$y = e + c(y-e) + g + (x-m) \qquad \text{(A)}$$

and $y = F(t)$, with $F(0) = 0$ and $F' > 0$ where t is the average tariff rate (again we ignore compositional effects). Now if $t = 0$, then $y = 0$, and $e = f^{-1}(0) = 0$. From equation (A) it follows then that

$$g + (x-m) = 0,$$

which means that any government expenditure caused in the wake of the increase in unemployment is necessarily financed by *external* debt. Since lower case letters express *deviations* from the liberal-trade equilibrium, this external debt is *in addition to what was needed to finance the original import surplus,* as claimed above. On the other hand it is clear that there exists a t, such that $f^{-1}(F(t)) = n$. When this tariff rate is imposed, all unemployment caused by trade liberalization will disappear. Here we have

$$y = n + c(y-n) + g + (x-m)$$

or $(y-n)(1-c) = g + (x-m)$

which is necessarily positive since profits at the margin must be positive. It follows that *compared to the liberal-trade equilibrium* we can have either a higher g or a higher current surplus by imposing a tariff rate, even while eliminating the increase in unemployment. The imposition of a tariff in other words is superior to the liberal-trade equilibrium, first because it eliminates unemployment; secondly, it does so without causing any increase in external debt; and thirdly, while doing so it makes room for larger government expenditure which can even be accompanied by an increase in current surplus. Of course if the imposition of a tariff gives rise to retaliation, then the economy will be driven back to the pre-trade equilibrium where employment will be larger than the liberal trade equilibrium. *In addition the need to contract external debt will disappear.*

The moral of the story is that unemployment-generating trade liberalization should be avoided. And since the generation of such unemployment is typically associated with the destruction of petty production, we can re-state the moral as: petty production must be defended on employment grounds, through protection against trade if necessary.

The textbook case for free trade is made on the assumption that full employment prevails both before and after trade. (Even the Ricardian argument for free trade assumed Say's Law, like the rest of Ricardo's analysis). Even today those who argue that opening the economy to trade will be beneficial, do so on the presumption that the workers displaced from the sectors hurt by imports will soon be absorbed in sectors flourishing under the open trade regime. The decimation of petty production in general, occurring before our very eyes under the neo-liberal dispensation, and the agrarian crisis in particular, are shrugged off as mere transitional problems, inevitable in a historical sense, until the displaced workers get absorbed elsewhere, as they are assumed inevitably to do. There is however no such inevitability. On the contrary, openness to trade as we know from experience, causes unemployment that remains a perennial feature of the economy. In such a case not only does the case for free trade disappear, but, on the contrary, a strong case arises for trade restrictions for the preservation of petty producers and avoidance of unemployment.

Of course, against what we have argued above, it may be thought that if the exchange rate was flexible instead of being fixed, then the unemployment problem should disappear. But while the effect of an exchange rate depreciation is analogous to that of the imposition of an import tariff, which we discussed earlier, and while exchange rate depreciation, like the tariff, will work best when there is no retaliation, there are many advantages of trade restrictions that a blanket measure like depreciation lacks: first, exchange rate movements engender speculation which often acts in a manner opposite to what is desired. Secondly, an exchange rate depreciation, by raising domestic prices of *all imports*, gives rise to cost-push inflation (not captured in the above model), because of which a nominal depreciation does not necessarily cause a real effective depreciation[6].

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[6] Nicholas Kaldor, "What is Wrong with Economic Theory?" in *Further Essays in Economic Theory*, Duckworth, London, 1978.

Thirdly, even when nominal depreciation results in a real effective depreciation, it does so through changes in income distribution which may be undesirable. Tariffs, being selective, do not have the same order of effect on income distribution.

IV

Autarky, or the imposition of tariffs, does however entail a reduction in the living standards of those who are employed and who consume the imported goods which are cheaper. There is in other words an apparent trade-off between the interests of those who are displaced by imports and those who are better off owing to the availability of cheap imports, i.e. between the unemployed and the employed, especially those among the employed who consume the imported goods. This trade-off, as is well-known, made its appearance in the Gandhi-Tagore correspondence and in Tagore's novel *Ghare Baire*. The trade-off arises because the import of cheaper goods which has an income effect, resulting in unemployment, also entails an improvement in the conditions of those who are not adversely affected by this income effect. While Gandhiji, in wanting the boycott of foreign goods, was concerned with the victims of the income effect, Tagore, in criticizing the boycott, was concerned with the living conditions of those unaffected by the income effect, viz. the peasantry. "Mainstream" economics, and its current neo-liberal descendants, are, regrettably, oblivious of this income effect altogether.

Tagore saw the peasantry as being outside the ambit of the adverse income effects of import liberalization, which were supposed to affect mainly the weavers and the craftsmen. But the income effects of trade liberalization in the present era affect not only small and petty manufacturers, craftsmen and sellers, but even the vast bulk of the peasantry itself, as is evident from the agrarian crisis and the spate of farmers' suicides[7].

A question however arises here, one that Ricardo had discussed in his Chapter "On Machinery". If we consider *growth*, then might it not be that the unemployed would get absorbed over time, especially if the pressure of unemployment lowers the share of wages and access to the world market stimulates investment? We have been considering a single-period situation but once we bring in a succession of periods, matters may turn out to be quite different. The problem with Ricardo's argument in "On Machinery" was that he discussed over time the implications of a single act of technological change, while a dynamic analysis requires that we shift attention to a succession of acts of technological change. Likewise even here if we are exploring the possibility of unemployment being curtailed through growth, then we must do so by introducing technological progress, i.e. a

[7] The agrarian crisis, it may be argued, is not because of trade liberalization *per se*, but because such liberalization occurred in the midst of a situation where the commodity prices had taken a nosedive anyway. But in a liberal trade economy, the effects of increases and decreases in primary commodity prices upon the peasantry are asymmetrical, so that such nosedives when they do occur, as they must, leave an indelible impact. Therefore, the distinction between trade liberalization *per se* and trade liberalization in the midst of a price collapse, though of practical significance, is not of great theoretical moment, since a price collapse in a liberal trade economy, *no matter when it occurs*, cripples the peasantry. In addition there is the issue of the peasants being out-competed, as if they were "inefficient" in the conventional sense, *not because they are actually "inefficient" but because of the heavy subsidies by the advanced countries*.

sequence of changes giving rise to a certain rate of growth of labour productivity, which in turn would not be independent of the rate of growth itself. Available evidence suggests that the observed elasticity of employment with respect to output is itself a function of the growth rate, and declines as the growth rate rises (at least above a threshold). *A higher growth rate of output therefore does not appear to result in a higher growth rate of employment, in which case the initial increase in unemployment would not be eliminated through higher growth* (even assuming such higher growth occurred).

Hence, the conflict between the employed and the unemployed, which exists in the short-run, does not disappear in the long-run *by the unemployed becoming employed.* On the other hand there are reasons to believe the very opposite, namely, that, in a long-run perspective, *the employed stand to lose in several ways from an increase in unemployment, such as is brought about by import liberalization*. First, a swelling in the ranks of the unemployed, as Marx had emphasized, lowers the bargaining strength of the employed, and tilts income distribution away from them. Putting it differently, we can distinguish between an immediate visible income effect that manifests itself in unemployment, and a more long-term, more invisible effect on the incomes of the employed, on account of the growth of unemployment itself. The immediate apparent beneficiaries of import liberalization thus become losers from this very process in the longer run; the circle of gainers is much smaller than appears at first sight. Secondly, since unemployment has damaging consequences for society as a whole, the conditions of living of everybody, including those who are apparently the beneficiaries from the very process that gave rise to the unemployment in the first place, viz. import liberalization, get diminished by it (which after all is why governments undertake expenditures either to ameliorate unemployment or to contain its damaging social consequences). The gainers from liberal trade therefore also have an objective interest in restricting the losses of the losers. Thirdly, since such government expenditures, to the extent that their financing does not restrict aggregate demand, increase the country's external debt, this necessarily brings in its train the imposition of deflationary measures on the economy, which cause job-losses or wage cuts for the employed.

It follows then that the toleration of increased unemployment, as a consequence of import liberalization, on the grounds that it is only transitory, is theoretically untenable. Its toleration on the grounds that the benefits accruing to many others owing to cheaper imports, must be preserved, and the unemployed may at best be compensated in some way, is short-sighted, since these benefits themselves disappear over time for large sections of the people as the adverse long-term income effects begin to get felt. There is no alternative therefore to a policy of keeping unemployment restricted, which in practical terms means a defence of the small and petty producers.

This defence typically will require trade restrictions. The destruction of petty production through exposure to liberal trade, in the name of efficiency, is an undesirable course of action. What is needed is the very opposite of it, a defence of petty production, by protecting it, if necessary, against liberal trade. The fact that the third world State presiding over the neo-liberal dispensation would be both unwilling and unable to do so, is as much an argument for altering the nature of the State as a pointer to the direction in which the State that comes up in opposition to neo-liberalism must move.