Democratic Decentralisation and the Planning Principle:
The Transition from Below

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According to one view, decentralised planning is a contradiction in terms. The orthodox literature on planning envisaged a process of centralised investment decision-making, which had as its corollary central access to and allocation of the surpluses available in an economic system. *Per contra*, if decentralisation is to be meaningful, resources need to be devolved to lower levels of decision-making, which must have the right to allocate resources in accordance with local priorities. The intent of this essay is to examine this apparent contradiction, and to challenge the view that the planning principle and decentralisation are incompatible. This becomes important because of the growing support for decentralised planning as an alternative system of intervention, especially given the success with the decentralisation experiment in the state of Kerala in India.

The search for a more humane alternative to capitalism, which even when 'successful' in terms of the growth in output in some parts of the world, is characterised by national and international inequality, unemployment, poverty and environmental degradation, is as old as the system itself. Socialism, in theory and in its actually existing form, provided an alternative with a grand design: that of replacing private property and the market mechanism, which were seen as underlying capitalist failure, with social ownership and centralised planning. The subversion of "actually existing socialism" in the erstwhile Soviet Union and Eastern Europe and its radical transformation in the direction of a more 'market-driven' system elsewhere in the world, has encouraged a critical appraisal of the functioning of the erstwhile centrally planned systems. That appraisal has in many cases been driven by the felt need to combine the advances the centrally planned economies (CPEs) had made in overcoming the anarchy of capitalism and ensuring the provision of basic needs to all at an early stage of development, with mechanisms that forestall or preempt the degeneration of those systems.

The Case for Central Planning

The case for central planning, which had at its core the central coordination and execution of investment decisions, emerged out of a **critique of capitalism**. That critique focused on the anarchy associated with the atomistic decision making characteristic of systems based on private property. In such systems, the level and allocation of investment gets determined by the "guesses or expectations of a large number of independent decision-takers (entrepreneurs), in the long run 'revised' by *ex post* movements of market prices" (Dobb, 1960). Since the investment in fixed capital that results is not by definition reversible, decision errors are costly in individual and social terms. And such errors are bound to occur since private investment decisions must be based on estimates of prices that would prevail over the lifetime of the project. In the circumstances, existing prices cannot be a guide to future prices, as the atomistic, individual investment decisions made on the basis of the prevailing prices together influence subsequent movements in prices. Without an anchor, there is no reason to surmise that expectations would actually be realised, leading to over-investment, unutilised capacity and closure. Hence a system that seeks to supercede the anarchy of capitalism must coordinate investment and arrive at *ex ante* decisions on the total volume of investment, its allocation to sectors and particular projects and the technical forms in which it would be embodied.

The benefits from such coordination were two-fold. First, by overcoming the "secondary uncertainty" inherent in a regime where investment was based on atomistic decisions, it reduced the waste and unemployment characteristic of capitalism. Second, by ensuring the incorporation of appropriate inter-temporal judgements in the choice of the investment ratio, the allocation of investment and the technical forms in which it was embodied, it permitted a process of maximizing growth subject to the consumption requirements set by social and political conditions.

Analysing the Failure

Analyses of the "failure" of actual attempts to implement such coordinated investment decision-making have one feature in common. This is an emphasis on the institutional weaknesses associated with centralised investment decision-making as a system of economic governance. These weaknesses are of many kinds. First, the system presumes that central planners have adequate access to the wide and enormous range of information required to execute their implicit brief. This "informational inadequacy" arises only partly because of the difficulties involved in creating a framework which allows for the collection, collation and transmission of the required information at a fast enough pace. It also results from the fact that agents at lower levels of implementation and governance may choose to hold back and not transmit crucial information or even find incentives for transmitting partial or incorrect information, which puts the whole mechanism in threat.

This leads up to the second inadequacy, which is the belief that either the objectives and goals of agents at all levels of decision-making or implementation (including shop-floor workers or workers in agricultural cooperatives or state-owned farms) are common or that all agents can be made to adopt the objectives considered appropriate by the central planners. This understandable lack of uniformity of objectives among agents whose structural position in the system differs is of significance because, the conventional means under capitalism of trying to impose discipline through closures, retrenchment and lay-offs and the threat of the sack, does not operate under central planning.

This problem has always been recognised in the traditional discourse on planning, which considered politics to be key to realising correct and consistent decisions at lower levels of decision-making. Consensus among the majority around the political agenda, seen as a requirement to put in place the system of central planning itself, and the ability to use that consensus to enforce non-financial penalties for deviance, were seen as adequate to ensure commonality in objectives pursued by different agents. In practice, it is clear, that the extreme difficulty in keeping in place a consensus, created in the course of transiting to a system of central planning, and of detecting deviance and enforcing penalties, was substantially underestimated.

Thirdly, even though a system of centralised investment-decision making has the potential to overcome the problem of secondary uncertainty, it had to face the problem of "primary uncertainty" to the same degree as any system of atomistic decision-making. Needless to say, uncertainty of a kind described euphemistically as "acts of god" such as vagaries of the monsoon, floods or earthquakes can never be fully predicted and planned for. But theoretically at least, a centrally controlled system with a strong state should be more capable of dealing with such emergencies, despite claims to the contrary based on doubtful evidence. However, there are other aspects of primary uncertainty such as uncertainty regarding the directions of development of science and technology and of the evolution of tastes and lifestyles, which even if not correctly predicted, should be accommodated with a more flexible environment aimed at fostering unusual creativity or providing for and meeting exceptional and even unavoidable consumption demands. It is quite possible that being more tightly controlled, a centrally planned system may be handicapped when dealing with these forms of uncertainty, as suggested by developments in the erstwhile centrally planned economies during their later phases of "intensive" growth, dependent on productivity increases and associated with higher per capita incomes.

Finally, there is a real danger of "bureaucratisation" at the higher levels of decision making, which may not be easily confronted by the political environment, since very often the same agents are arbiters of the acceptable politics of the day. Such bureaucratisation, could not only lead to wrong investment decisions, influenced by sectional rather than societal interests, but could also be replaced by objectives and rules which are not ***perceived*** by the planners as being socially accepted as best for society, but which are ***considered*** best by the planners, and not necessarily always from a societal point of view. Even if consumer sovereignty, which presumes that individuals are the best judges of what is good for themselves is a notion that can be dispensed with, some means to ensure the incorporation of individual priorities and desires when deciding on the volume and pattern of consumption should be provided for, if individuals are not to be alienated from the system.

Irfan Habib (1993) summed up the consequences of centralisation as follows: "Who controls the socialist state (and how) is the crucial question determining the destiny of socialism. When socialism is established there is no blind economic 'law' which would take socialist society in one particular direction, that of advance. There are policy alternatives at every step; and the choice can always be coloured by group, sectional, and (ultimately) the choice-makers' own, interest as distinct from, and therefore, possibly opposed to, the interest of the people at large. Since, ... , wages continue under socialism, and so does the rendering of surplus-labour, there must arise a growing sense of alienation of the worker from the socialist system under conditions where crucial economic decisions are taken without reference to him. For a long time the workers' recognition of the benefits rendered by the social services created by socialism would continue; but, ultimately, as the socialist society atrophied under the direction of vested interests, the workers' attitude would change to hostility or indifference. The socialist structure would collapse under the internal and external strain, aided undoubtedly by the external capitalist environment which continuously generates Imperialism."

Once we add together all these institutional inadequacies, there is a real possibility that central planning may fail to deliver on many fronts. Experience too has made clear that, both in terms of the ability to garner the required information and the ability to intervene effectively in pursuit of specified objectives, the centralising alternative assumed too large an "area of control" for the planner and ignored the possibility of conflicting incentives. Even while being successful in ensuring full employment and providing for the basic needs for the overwhelming majority, the system has failed to sustain the process of development, especially as the advantages of being able to draw on unutilised resources during the extensive phase of growth have been exhausted. In fact, since providing basic needs for all draws on a substantial volume of resources, centrally planned systems need to maximise productivity growth and the benefits derived from the surplus available at each point of time, to ensure an adequate pace of growth. But it is the ability to do so which is weakened, leading to the kind of failure witnessed in some at least of the erstwhile centrally planned economies.

The Search for an Alternative: **Market Socialism**

It is the realisation that such potential failure cannot be easily pre-empted by just political mobilisation within a given institutional framework but needs a process of institutional innovation that has generated a search for alternative institutional forms for planning. Since the institutional inadequacies of centralisation are accompanied by the real danger of bureaucratisation in its many manifestations, there is one direction which most analysts, independent of specific theoretical inclination, tend to take: that of moving away from the "excessive" centralisation characteristic of the earlier model, in favour of a more decentralised decision-making structure. That search has moved in two directions. Even within the socialist tradition, broadly defined, there are many who have focused on the importance of the market as a mechanism for organising economies, and attributed failure to the inadequacy or absence of markets in the CPEs. To ideologues of capitalism as a system, the sovereignty of the individual as citizen, sought to be enshrined in political democracy as the system of government, can never be complete without the sovereignty of the individual as consumer, ostensibly guaranteed by making consumer votes in the market determine the allocation of resources. The influence of this point of view, however, runs deeper. Not surprisingly, both new putatively "socialist" experiments as well as much theoretical writing have attempted to work out an alternative which, described as "market socialism", seeks to provide a significant role for decentralised, market-mediated decisions in determining both the allocation of resources and the dynamics of the system. In terms of vision, the intention is to construct a model of an economic system that is both egalitarian and efficient.

The difficulty is, of course, to establish that markets are efficient. Economic theory has after all made clear that the market ensures an equilibrium in which resources are allocated in a Pareto-efficent manner only "if all economic actors are small relative to the market and cannot individually affect prices, if externalities are absent, and if there are a sufficient number of insurance and financial markets" (Roemer 1994). Actual markets do not correspond to that description at all. What is argued, instead, is that the market mechanism and the competition it is characterised by, contribute to "dynamic efficiency", by stimulating product and process innovation. However, neither is there any adequate theory to support such a proposition nor is their any clinching evidence that markets are superior to planning when it comes to innovation. Yet, some proponents of models of "market socialism" refer to the facts that: (i) the inadequacy of central planning was most visible in the phase of "intensive" growth based largely on innovation and productivity increase, as opposed to "extensive" growth based on the mobilisation and use of unutilised resources; and that (ii) post-war capitalist growth was in no small measure due to an unprecedented wave of product and process innovation, to argue that "we know of no mechanism that can produce an innovative economy except inter-firm competition". Therefore, they hold, any theoretical or practical alternative to the erstwhile centrally-planned economies, on the one hand, and capitalism as we know it, on the other, must be based upon such competition. As one writer has put it, what is required is an appropriate combination of decentralisation, markets and competition (Stiglitz 1994).

There is here a very specific characterisation of inter-firm competition. It must be based on profit maximisation by firm managers who are subject to the market-determined threat of closure from which they are not relieved by a "soft budget constraint" (Kornai 1982). Firms that are unviable will not be propped up with subsidies, higher administered prices and unlimited, cheap credit, by those who control resources, so long as they are not, at one remove, in charge of the operations of the firm. Thus, the appropriate kind of inter-firm competition would not prevail if an administrative apparatus under which producers are not forced to compete allocates goods and if firms are under the direct control of political agencies. It is based on such reasoning that an unavoidable link between the form of competition required for efficiency and the market mechanism is established. Having established that link, market socialists need to construct a model of a system based on markets that is egalitarian, since in their vision "the only sound ethical argument for socialism" is egalitarianism of a kind which is not achieved under capitalism.

A Critique of Market Socialism

To those acquainted with the socialist calculation debate the case made by the 'market socialists' that markets and planning should work in tandem suffers from some obvious inadequacies. Lange's conception of a planned system was developed in the course of a **defence of 'socialism'** against the argument that in the absence of markets and prices for resources, including produced means of production, it lacks in practice a feasible mechanism that can allocate resources efficiently. That argument was formulated by von Mises (1935) and Hayek (1935) as a response to Barone's suggestion that the central planner could, like the Walrasian auctioneer, solve a system of equations involving an equivalent number of unknowns to arrive at a set of prices that would clear all markets. Lange's defence of socialism against the Mises-Hayek critique presumed that investment and production decisions would be 'decentralised', but would be undertaken by plant and industry level managers acting according to accounting rules specified by the central planning board, taking a list of prices put out by the board as parameters. The accounting rules themselves were similar to, if not identical with, those adopted "naturally" by profit maximising agents in a competitive market with free entry and exit. If, as a result of such decisions, the quantities supplied and demanded of any commodity at the notified prices do not tally, the central planning board would adjust its prices upwards or downwards and move the system towards an equilibrium. Acting in this manner, as a 'price setter' and an agency that ensures the adherence to accounting principles handed down from above, Lange argued, the central planning board could ensure that a socialist system replicates the allocative equilibrium typical of a competitive market.

This defence implicitly accepted the notion that price signals generated by perfectly functioning markets were the most efficient allocators of resources to meet ends specified by consumer preferences. Naturally, therefore, it was concerned with the extent to which the socialist economic mechanism could approximate those prices by imitating such markets. Besides the fact that the debate ignored even conventional scepticism about the efficiency of 'as-perfect-as-possible' real world markets where information is incomplete and trading occurs sequentially (Hahn 1989), it gave the argument away by addressing the question whether an interventionist regime could approximate the automatic equilibrium generated by the market. As Dobb argued, the comparison was between an "ideal-type" which costlessly arrived at equilibrium, and a cumbersome, interventionist regime that attempted to approximate that equilibrium. And in the process of winning the debate that socialism can actually ensure the approximation of "equilibrium prices", the unsatisfactory and inappropriate comparison undermined the real strength of the planning principle in the classical tradition, which was its ability to coordinate investment decisions within a regime where only the markets for labour and consumption goods were relatively free.

Lange went on to suggest that not being wedded to the principle of private ownership, the State could start with a more acceptable distribution of endowments. Further, the central planning board could ensure that the prices chosen are more comprehensive and take account of externalities, that adjustment proceeds faster and that monopolistic price fixing policies are not resorted to. That is, the socialist economy can not only replicate a competitive market, but it can also ensure that endowments are more equally redistributed, that externalities are taken account of and that monopolistic restrictions on trade that result in inefficiency are kept under control. Markets in this system could not only be closer to perfection in their working, but also more "people friendly".[1]

The obvious blend of markets and planning in Lange's model of socialism is ensured through the separation of the structure of decision-making (which is decentralised) and the hierarchical structure of objectives based on which those decisions are made. Societal, macroscale objectives dominate the latter, so that "lower-rank objectives become the means

1 [1] . The assumption was, of course, that planners were "efficiency-maximising politicians" who were by definition interested in income and asset redistribution, in internalising externalities and in encouraging competition rather than monopoly. This assumption was not borne out by the experience in the erstwhile socialist societies.

for attaining higher-level ones, and the criteria for rational behaviour of the sub-sytems (sectors, branches, enterprises) are subordinated to the system as a whole" (Brus and Laski, 1989). The presumption is that decentralised decision-makers would not deviate in terms of behaviour from what is centrally ordained, even if such behaviour is not the most rational seen solely from their 'decentralised' perspective.

There are three aspects of this argument that drew criticism. First, by implicitly doing away with the plan-market dichotomy, the argument made the case for socialism purely an "egalitarian" one. And this it did by accepting the terrain of a critique of socialism which compared it with an "ideal-type", viz., the competitive market, which automatically ensures an equilibrium, behind the backs of people. As compared with that, a socialist market required a cumbersome, interventionist trial-and-error process that was less attractive on "efficiency" grounds, even if more egalitarian. Second, the dichotomy was discarded essentially by doing away with the planning principle, involving investment coordination. Planning essentially involved the creation of an agency that served as a "price-setting body", which imposed known accounting rules and policed the system. Finally, the dichotomy was discarded at the expense of importing into the system the likelihood of the instability and the unemployment characteristic of the system that planning was expected to replace. That likelihood arises the moment we allow decentralised investment decisions to respond to decentralised signals. While most of those signals are 'prices' specified as part of an exercise aimed at equating economy-wide supply to demand, the interest rate cannot be seen as the price that equates the demand for capital with the supply of a given stock of capital, and its resulting marginal productivity. Capital being a produced means of production is not an exogenously given but an internally "accumulated" stock. This process of accumulation through investment generates its own additional demand for capital. That is, any increase or decrease in the "supply of capital" simultaneously increases or decreases the "demand" for it. It should be clear that if investment creates it own draught in this manner, the system tends to be characterised by "knife edge"-like properties, that can lead to persisting inflation or unemployment.

This tendency of a Lange-type system to replicate the instability characteristic of capitalism is not surprising. What is surprising, however, is the fact that the collapse of the erstwhile socialist regimes, in the wake of a rather long period of successful development in economic terms, has resulted in a return to arguments that fall back on a conception of an efficiently functioning system implicit in the Lange formulation. The argument seems to be as follows. In practice, after all, dominantly market-based systems have done better than those based on the planning principle. And even though those actually functioning markets have little to do with "perfectly competitive" representations of them, we can assume that their actual performance must just be a deviation from the ideal, rather than a negation of that ideal. Hence, while striving to retain elements of egalitarianism, erstwhile socialist regimes must transit to ones that allow for the dynamism and efficiency that markets provide.

We have already argued that this reliance on atomistic decision-making imports the anarchy characteristic of capitalism into the system. However, since the state has a role to play through investments and expenditure financed by taxation, it could be argued that fiscal policy can help stabilise the system. However, even that position is not easily sustained. While the model of market socialism delineated above prevents the concentration of wealth ownership in a few private hands, it does little to prevent the concentration of assets in the hands of a few "public" firms. Such concentration is inevitable in a system characterised by unbridled competition and increasing returns. It would be even greater when we take account of the large volume of non-reproducible resources and assets that are involved in economic activity. In the event, the system, as in capitalism, would soon be characterised by competition between a few conglomerates seeking to increase their share in surpluses. In this conflict over the division of the surplus the system could get trapped in an inflationary spiral, unless the state curtails demand by reducing its expenditures or the system is subjected to the disciplining force of "international competition" as has happened in many East European countries (Patnaik 1988). The latter only leads to a combination of balance of payments difficulties and further unemployment, unless the sheer force of competition renders domestic firms internationally competitive to the required degree. In most countries, including the less developed ones for which this model is explicitly recommended, experience has shown that this is most unlikely.

In brief, even in terms of its internal logic, it is unclear how the model that is expected to render egalitarian systems "internally efficient" can be efficient in the sense of delivering an adequate pace of growth and level of employment. It is indeed surprising that precisely at a time when the experience with the market in the "transitional economies" of Eastern Europe, with structural adjustment strategies in Third World countries and with the "retreat of the state" in the countries like Sweden that had experienced successful social democratic experiments has confirmed some of the apprehensions raised above, the market socialists have chosen to advocate their case for the centrality of market institutions.

What is more, it is unclear even whether egalitarian goals can be realised through such a model. There is little doubt that the democratic distribution of ownership, through the creation of voucher capitalists without inheritance rights for example, which involves larger returns for owners of the most successful firms, would fail to ensure democratic control over the functioning of large conglomerates. Equality in dividend distribution does not ensure democracy either in the workplace or in the market. In particular, the absence of inheritance of share ownership does not guarantee equality in the utilisation and disposition of current incomes, and the effects of inequality in the control over assets can soon overwhelm the equality due to share "ownership". And similarly owned banks, which are ostensibly meant to monitor such conglomerates independent of political intervention, are after all at the centre of such conglomerate expansion. It is unclear why they would not be a party to the accentuation of such inequality, since without political control, there would be no agency to monitor the monitors. Bureaucratisation of a magnitude similar to that which weakened the erstwhile centrally planned systems is inevitable, with similar consequences.

As one writer put it, in our present historical situation when market institutions possess a global hegemony with results that are increasingly disconcerting, "the central political project of the age must be that of subjecting market institutions to the authority of indigenous political institutions" (Gray 1995). Instead what the market socialists have to offer are formal "models" of egalitarian markets that by no means guarantee the efficient and egalitarian results they promise. In any case, being constructed as institutional design models, they need not be historical. Defining a feasible alternative requires defining the modes of transition to that alternative. In particular, it requires delineating the political conflicts and agents that render such transitions probable. The search for such agents would reveal that the market is a coercive "instrument" of precisely those forces in capitalism that dominate it, drawing support at a political level from regimes increasingly espousing neo-liberal ideologies. The actual search for egalitarianism must therefore work with those who are against the market, not in its favour. Given this character of actual markets, making it central to the alternative optimistically presumes both that the system can be just "tinkered" to yield egalitarian outcomes based on a decimation of those who currently dominate it, and that in the future the market will not, despite its character, become the coercive instrument of a new elite who are the beneficiaries of a new inegalitarian order.

Democratic Decentralisation as an Alternative

It is in this background that democratic decentralisation of the kind being experimented with in Kerala has to be assessed. The principal elements of that process have been quite well delineated (Isaac 2000). It starts by accepting the principle of "subsidiarity", that states that not everything is best done at a centralised level, and advocates undertaking everything that is best done at lower levels at those levels. This requires (i) devolving adequate resources to lower levels of decision making; (ii) providing all levels of decision making with functional and financial autonomy; (iii) requiring that these funds are utilised as per a democratically decided and pre-specified development plan; (iv) building capabilities to use resources devolved to each level effectively; and (v) transforming civic culture to enable democratic participation. The last of these involves forging a partnership between, the people, the elected representatives and experts in various fields, all of whom function in an environment of mutual respect.

The decentralisation experiment also takes account of a distinction between two ways in which a societal viewpoint can be expressed and implemented. First, the social will could be embodied for specified periods of time in democratically elected representatives subject to recall. Second, it could be expressed and embodied in the actual participation of people in the decision-making and implementation process. It is the latter that is strengthened by the capability-building exercise. And participation in economic processes through means other then mediation by a disembodied market, strengthens the capability to judge the programmes being espoused and implemented by those seeking to be elected to positions of power.

The implicit assumptions and implications of this process need to be carefully read. Unlike the market alternative, it does not deny a role for central coordination of investment decision-making, but limits it substantially. It should be clear that there are a range of investments which cannot be undertaken at lower or the lowest levels of decentralisation, and are best undertaken at higher levels. There are others, especially those required for the provision of basic services or which involve choices regarding the appropriate degree of combination of investable and labour resources, which are best undertaken at lower levels. Thus there are three macro-level decisions which need to be made as a prelude to decentralisation: first, that relating to the distribution of total income between investment and consumption; second, the share of the surplus that needs to be devolved to lower levels of decision making, including the share of investment and consumption expenditures to be undertaken out of these devolved resources; and, finally, the share of different regions and different levels of decision making in the resources devolved.

It should be obvious that none of these decisions can be frozen for all time, but would vary with time and circumstance, which is an issue of some significance in the discussion that follows. Further, unlike the alternative which decentralises decision-making through market mediation, this form of decentralisation does not do away with coordination of investment decision making at the central level, but reduces the extent of such coordination. While this does carry the danger of sectional interests and an element of anarchy entering the system, it also reduces the danger of excessive centralisation of economic and financial power with agents whose actual "area of control" and whose probable remoteness from the people does not warrant such power.

Needless to say, in the first instance these macro-level decisions have to be left to the democratically elected representatives to decide, based on what they consider to be appropriate from the point of view of the people at large. But once the process begins, and the "capacity to plan" begins to be acquired at different levels, different sections of the people begin to acquire the vision and skills to make similar decisions. This obviously implies that, what is being built is not just the capacity to participate fruitfully in "planning" at the local level, but the vision and capacity to assess alternative trajectories of investment and consumption and the implications of alternative allocations of investment across sectors. The growing capability to make such judgements, allows the system to ensure greater transparency and accountability on the part of central decision-makers. Those elected to implement central decisions would be chosen not just on the belief that they would act in the best interests of society, but on an evaluation of alternative programmes, whose implications for the trajectories of growth and the standard of living can be debated and understood. As this capability increases, as a result of actual participation in planning at lower levels, it becomes possible to cede economic power to elected central agents, who should now be less able to consciously or otherwise allow individual or sectional interests to dominate those decisions. And such power can continue to be ceded till such point where the benefits from the central coordination of investment can to be maximised. Put simply, the process of decentralisation has two components: one transitional, leading once again to a greater role for central coordination aimed at exploiting the benefits of such coordination; and another more permanent, which allows decisions best taken at lower levels to reside there, and help sustain the capacity to participate in planning of the people at large.

Decentralisation as Transition

But this is not all. The capacity to plan from below, keeps in check not merely the central planners but also decision-makers at various intermediate levels. This implies that the people and the set of elected representatives would not merely provide a check against decision makers at intermediate levels from subverting the planning exercise (by withholding crucial information or putting out wrong information, for example) but also provide the support and social sanction for imposing non-financial penalties for those engaging in such deviant expenditure. This would substantially enlarge the "area of control" of the central planner, helping overcome one of the institutional weaknesses characteristics of central planning as known hitherto. Decentralisation thus becomes a prelude to reforming and strengthening the process of central planning itself. In that sense the process has many elements characteristic of a transitional phase.

But it is not merely in this sense that decentralisation is a transitional phenomenon. The process is also inherently a critique of the market itself. No more is society to be convinced that the market is not benign, because of individualised experiences of its consequences such as unemployment or inflation, which erode standards of living. The effects of these experiences are, after all, partly neutralised, by instances of individual success and by the aspirations that market mediation creates and sustains. Increasingly, in participating in the processes of planning, the people would become aware of institutional rigidities (like the monopoly over land, for example) and market forces, that subvert the realisation of socially accepted goals being pursued through socially sanctioned programmes. This realisation would soon gel into a critique of market mediation and of the institutional forms that dominate that mediation, which is not based on individualised experiences of the "disciplining" role of the market. And that critique in turn, would both reduce the role of price signals in the formulation of plans, as well as generate demands backed by substantial social support, for efforts to reform the institutional framework of capitalism and to regulate and even displace markets. Seen in that sense decentralisation becomes one more potent instrument in the battle to transform capitalism and even supersede it. It is therefore not part of an effort to use politically realised institutional transformation to implement centralised investment coordination from above, but to simultaneously work for institutional transformation and the generation of an appropriate level of centralised investment coordination, by starting with a campaign for planning from below. But central coordination thus realised would by its very origins be far more sensitive to the needs and demands expressed and made from "below". It is in this sense a transitional strategy, which takes account of the failed experiments with exploiting the benefits of investment coordination. It remains an open question whether the energies unleashed by such a process would work towards unleashing the creative forces that can harness science and technology for productivity increase and product innovation. But, as mentioned earlier, it is unclear whether rivalry *per se* is the factor responsible for innovation under capitalism. All in all, democratic decentralisation of the kind being experimented with in Kerala, is an alternative both to central planning of the earlier form and to the "market socialism" being advocated by a reformist left devoid of mass support.

The Kerala Experiment

It is when seen in this light that certain aspects of the decentralisation experiment in Kerala stand out, in themselves and relative to decentralisation experiments elsewhere. There are two in particular which need to be emphasised.[2] First, the effort in Kerala is not to legislate decentralisation into existence, but to realise it through a mass movement, which is merely backed by legislation. This not only ensures that decentralisation does not just remain on paper or amounts to mere administrative decentralisation, but is a genuinely participative exercise. Second, the Kerala experiment does not link financial devolution to the absorptive capacities of lower levels of governance as perceived, correctly or otherwise, by those at the top. To seek to create absorptive capacity prior to devolving resources is to postpone

2 [2]These are elaborated in Isaac (2000).

financial devolution, rather than implement decentralisation. In Kerala the process of building absorptive capacity is predicated on devolution, inasmuch as the creation of that capacity occurs through the act of doing itself. Thus the decision to devolve does not come sequentially later, but begins the process of turning decentralised planning into a reality. And that process is not an end in itself, but one which paves the way towards creating a feasible and functional system of planning. To quote Maurice Dobb (1969), within the theory of planning "no clear-cut logically defined frontier can be drawn between the province of centralised and of decentralised decision," and "only experience can decide the expedient extent of the one and the other." It is that experience which is being garnered in the course of the Kerala experiment with democratic decentralisation, making it a truly historic exercise.

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