

# Paradigms in Development Theory

## Plea for 'Labour-ist' Approach

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*Arguing that the commodity-centred approach to the study of economic development lost sight of the tremendous changes taking place in the economic and social conditions of labour, this paper makes a case for the analytical reconstruction of the macro dynamics of development, taking the clue from the political economy of Adam Smith and Marx, both of whom used the 'labour-ist' approach to analyse capitalist accumulation, advance of productive forces, expanding commerce and changing social relations. In this context, certain striking features of the Indian developmental experience, which should find a reflection in analytical exercises, are taken note of.*

ECONOMISTS in developing countries are passing through a challenging times: on the one hand, the widening distance and the gaping disparities between the developing and the developed world generates overwhelming and relentless compulsions to search for strategies to accelerate economic development—and, this too, in an increasingly difficult social environment and shrinking economic space in the international markets.<sup>1</sup> On the other hand, the growing complexities and contradictions that the developmental process itself is meandering through raise fundamental questions concerning the 'meaning' and 'content' of development as well as pose formidable challenges to our theoretical understanding and interpretation of the processes of change and their causal interactions.

The theory of development, as a branch of economic theory, was initiated in the second half of this century when a number of erstwhile colonies, on acquiring independence, set upon programmes to accelerate the pace of growth and restructure their economies. Rising to prominence in the 50s and 60s, the theory has come under a dark cloud. (In a recent international conference on macroeconomic policies for developing economies, a discussant chided a fellow-theorist for still continuing to talk of the history of economic thought as the latter's paper discussed the problem of industrialisation in the light of the Lewis/Mahalanobis strategies. In many of the curricula of universities in the west, development theory is fast regressing into oblivion.) This 'decline' of development theory appears also to synchronise with the general apathy, if not hostility, towards macroeconomic analysis, particularly of the Keynesian (and Kaleckian, if it is considered at all) variety. The basic thrust of the critique in theory has been that macroeconomic theory has failed to provide (put in stronger terms, cannot provide) micro foundations in terms of the rational behaviour of individual decision-makers and therefore also of the functioning of 'markets'. This critique extends also to the domain of policy—there was a twilight period when the policy realism of Keynesian economics was accepted, though not its logical accuracy or adequacy. The argument has gained substantial ground in that the macroeconomic management of

the economy has failed to resolve the problem of stagflation and failed also in handling the intricacies of complex international trade and monetary regimes. In the case of the developing economies, too, the macro-management of the economy through planning, relying on macro-balancing/targeting and on physical controls, has increasingly been challenged in terms of efficacy, economic efficiency and administrative viability. The recent events in the socialist economies have also further strengthened this drive towards the 'market' as the arena of reliable and efficient action and development. I shall only remark here—leaving the issue to be taken up later—that while macroeconomic policies and planning systems are under critical fire, and their complexity and operational vulnerability are being vigorously attacked, the critics appear to have failed to appreciate that the 'market' credited with efficiency in theory is as much an abstract paradigmatic construction of theory and that the markets in reality do not conform to the manner of their functioning presumed in theory. It is to the nature of this paradigmatic construction that I shall address myself in the following.

The development process in India has posed terse and baffling questions of which I mention the most prominent two, relevant for our present purpose. Looking at the realm of output level and composition of national product, India has taken considerable strides in terms of widening the range of the available basket of commodities and services, whether for consumption or investment; the composition of GDP has changed significantly after independence and after the mid-sixties there has been a major thrust given to technical change in agriculture as well as in industry. In the 1980s, even more prominently, there has been a marked growth in selected industrial sectors such as consumer durables and services; the service economy has rapidly advanced. And yet, in terms of employment or the allocation of labour of the economy to various activities, there have been very little change with a continuing dependence of a large part of the population (almost 70 per cent) on a precarious livelihood in agriculture. The transfer of labour from agriculture to industry, considered a hallmark of industrialisation, has proceeded very tardily

despite 'modernisation'. There also have been growing interregional, intrasectoral and intersectoral differentiation in terms of all economic indicators of productivity and income.

A second factor that strikes one forcefully as a puzzle is that the broad aggregates in terms of the rates of participation, of employment (or unemployment), per capita consumption of basic goods, concentration coefficients for land distribution and the large number of households under the poverty line do not show much change. At the same time there are growing interregional and intersectoral inequalities and widening wage differentials. Even more striking are the qualitative/institutional changes in terms of the labour processes—in tenurial conditions, in the credit systems and in all marketing or exchange networks in general. These are occurring in the countryside, the small towns and urban areas. For example, there appears to be a considerable mobility of labour, rural-rural and rural-urban and in occupational mixes which has yet to form regular patterns: it is sometimes only seasonal, and casual so that these changes are not stable enough to differentiate the population in terms of livelihood opportunities and employment status on a long-term basis. Despite the overall stabilities in employment patterns, considerable changes are occurring, the dynamics of which is hard to analyse but whose social and political repercussions are already acutely felt in terms of rising social unrest. Apart from the weakening—and dissolving, in some cases—of communitarian institutions and organisations, the force of commercialisation appears to have introduced a sort of strident individualism. The ubiquitous presence of the state appears to have increasingly strengthened this trend. While it would not be possible to elaborate on this—a deep issue connected with a social change that appears to be sweeping the polity and the economy—I would simply observe that many complex changes are occurring in the *production and exchange processes* as well as *relations* in the economy that render any simplistic analysis of the 'market' and its identification with the freedom of the individual, extremely reprehensible and problematic.

The 'pro-market' argument is rapidly gathering strength in this context. The failure

of our analysis to place these micro-level changes in a proper macro-level perspective has led some to the corollary that both macroeconomic analysis as well as policy has to be abandoned—the visible hand of the policy must be led and guided by the invisible hand of the market. The more agnostic would desert macroeconomic management altogether and put their faith on the 'impersonal' autonomy of the market. I am of the view (and, I believe, many of my professional colleagues would agree) that we ought to continue our pursuit for discovering analytical coherence in the complex patterns emerging and observed at the micro-level within a *macroeconomic frame*. This would call for a critical scrutiny of the existing paradigms that have influenced our analytical thinking—not 'as history of thought' but as an attempt to reconstruct the old or reconstitute the new. This is a challenge and an opportunity which the younger generation of economists in India would have to seize when we are, as today, at the crossroads in theory and in policy.

## I

### Major Paradigmatic Influences on Development Theory

I would like to pick up two very significant paradigmatic influences that have shaped the formation of development theory, particularly in its early phases. The driving concern was mainly in terms of material improvement towards catching up with the developed world. To the extent that planning was introduced, implying direct state intervention, the analysis and techniques of socialist planning also exercised some influence, often on the rhetoric. One influence was that of mainstream economic theory explaining economic activities of production, consumption, investment, and distribution as well as their interrelations operating through the market in a capitalist economy. This theory explaining 'quantities' and 'prices', their interactions and movements was basically designed and structured for capitalism—competitive capitalism in most cases. Even for this problem, there developed two streams of theory: one, of classical political economy (with its beginnings in petty and the physiocrats and formulated comprehensively by Smith, Ricardo and Marx) whose concern, for the most developed parts of their theory, was also with the explanation of production, exchange and distribution as processes working in a capitalist society. A different structure and framework of theory to explain the same problems arose in the form of 'marginalist' theory, later growing into the so-called 'neoclassical theory'. The two theoretical systems differed in their approach and basic framework and it is the latter that has dominated the mainstream thinking and shaped particularly the early theorising on development. The recent revival of the 'market' and a return to the 'micro foundations' attempts to reinstate this latter ap-

proach, although in more sophisticated forms.

The second paradigmatic influence that shaped the problematic in development theory was the industrialisation experience of England—the country to emerge as the first capitalist economy and, interestingly, also the birth place of political economy as a scientific inquiry analysing the wealth and progress of nations. It was that country's history of transition from an agriculture-based feudal system to a fast industrialising capitalism that set the questions concerning the path, the pace and the pattern of industrialisation. Development was mainly seen as rapid expansion of the industrial sector with labour and surplus resources transferred from agriculture into industry. The town-country divide as well as agriculture-industry sectoral divisions, with proletarianisation of agricultural labour supplying wage labour power to industry, became important issues in the industrialisation debates. The failures or tardiness of capitalist development and industrialisation in developing countries were often seen as departures from this classical case and strategies suggested thereupon to overcome the hurdles or bottlenecks in the process. I shall first briefly sketch these influences, in turn, beginning with the alternative theoretical paradigms explaining 'prices', 'quantities' and their interactions on the market. I shall conclude this discussion by suggesting what I refer to as the 'labour-ist', as distinct from the 'capital-ist', standpoint on development, derived from the classical political economy.

#### THEORY OF COMPETITIVE CAPITALIST MARKETS

The economic theory, developed in the context of a competitive capitalist system with its specific characterisation of the problem of 'change' and 'choice' provided the basic framework which was then attempted to be modified to accommodate the peculiar characteristics of the developing economy. What is instructive to note is that (a) the more basic properties of the theoretical system, as reflected in the structure, framework and approach were retained, explicitly or implicitly and (b) even more importantly, the 'distinctive characteristics' or attributes of 'underdevelopment' were themselves recognised and the 'differences' or 'shortcomings', diagnosed in terms of the theory's analytical perceptions on the nature of 'choice'—how the agents choose—and of 'change' that is, of the mechanisms and the causal relational nexus determining these changes. To these notions of change and choice correspond the notion of the 'market' and the consequent role attributed to relative prices and their variations.<sup>2</sup> Taking the specifications of their theory of price and quantity determination in the capitalist economy as a benchmark, the marginalist theory diagnosed the causes of underdevelopment and attributed the tardiness of growth to specific characteristics of these

economies seen as departures from the abstract theoretical construction of the capitalist market economy. This was particularly so in the early phase of development theory, before the structural characteristics were brought to the fore in economy-wide dual sector or multi-sector models (as in Lewis or Mahalanobis, see below).

What then are the basic characteristics and approach of the theory explaining the functioning of a competitive capitalist economy which were carried over onto development theory, even if in a modified form? For the sake of brevity I shall state the theory in its elementary but essential form. The theory visualises the economy as an aggregate of atomistic individuals (producers and consumers) who make their optimising choices in pursuit of their respective returns. Each producer, given the technological possibilities, chooses the profit-maximising activities and outputs at the going prices (i.e., at the parametrically given prices) and so does each consumer maximise his satisfaction, given the budget constraint and the scale of preferences. It is through this operation of the 'fundamental and universal principle' of substitution that individuals adjust their optimum quantity choices in response to variations in relative prices. The relative prices formed on the 'market' (which alone is the domain where 'collective outcomes' of individuals' decisions are registered and become effective) vary in response to excess demands and/or supplies in particular markets. Equilibrium is envisaged to be established when all markets clear yielding *simultaneously* the equilibrium set of prices and quantities. For such an equilibrium to exist, however, stringent conditions need to be established on the feasible choice sets and on the price-quantity responses. It is only when the relative price-guided substitution proceeds in the right manner to yield 'well-behaved' demand and supply relations that equilibrium can exist. This has created logical problems for theory, for example, when increasing returns prevail. The data for this theory are (1) the initial endowments of primary resources and their distribution, (2) the technological possibilities, and (3) the system of preferences.

#### SPECIFICITY OF NOTIONS OF CHANGE AND CHOICE

This explanation of prices and quantities has a number of analytical consequences. The very notion of 'change' is restrictively circumscribed. First, all changes in quantities within the system are seen as outcomes of the ever active principle of substitution. These changes are also primarily changes in *relative quantities* involving mainly allocational variations (e.g., given the endowment of resources, their use is discussed primarily as variations in factor proportions). The role of prices, of resource-allocating, emerges from such a structure determining variations in relative quantities and prices. All changes

are thus explained as induced by changes in relative prices and operate through individuals' quantity adjustments in response to these changes, i.e., *all influences affecting quantities are seen as mediated through relative price variations on the market and themselves are the outcomes of the atomistic responses of individuals.*

The theory operates with individuals as the decision-making unit; however, it is not the individual as a unit *per se* that alone creates the much debated micro/macro cleavage. The analytical divide originates in the manner in which the individual choice is conceptualised in that theory. The individual is, so to say, cordoned off, through raising barriers of assumptions, blocking all influences emanating from other individuals or social relations—through a resort to the blanket assumption of 'no externalities'. Further the assumption of given technological possibilities and given preferences bypasses the important issue of how those sets themselves are generated. It also ignores the interaction between the individuals' discriminatory access to these options and the choices he/she makes. Through such conceptions of technology and demand as **exogenously determined, the theory effectively** rules out all feedback effects that impinge in the individuals' modes and domains of decisions, emanating from the macro or systemic level social factors. Conversely, the influence of the individuals' decisions on the macro system is presumed to operate only through the quantity signals passed on to the market, the individual being powerless with regard to prices.

Further the supply and demand framework and the price-quantity signalling mechanism between the individual and the market is generalised to all domains of activities—whether to consumption, production of commodities or to 'factor' markets. A symmetrical treatment is thus offered to all 'factors of production' (land, labour and capital) whose returns are determined like all other prices of commodities. Furthermore, factor prices as well as commodity prices are determined *simultaneously* along with the equilibrium quantities. Thus, full utilisation of factors of production is an outcome of the operation of the equilibrating forces rather than an assumption of the system.<sup>3</sup>

What is evident from the above rapid review is that the 'market' and the 'market clearing prices' as well as the correlated notion of efficiency and the allocative role attributed to relative prices as of an 'invisible hand'—*all these are constructions based on a specific abstract model of change and choice and hence 'market' is a 'specific institution'*. Further the common inference equating 'market' with the freedom of the individual needs closer scrutiny. This model may accommodate inequalities in terms of resource-endowments and that too in a limited way. It cannot give space to systematic discrimination which occurs in the exchange systems originating from social distinctions such as of class, caste or sex.<sup>4</sup>

## DIAGNOSIS OF UNDERDEVELOPMENT

While it was realised that the needs of development were more in terms of resource creation and economic restructuring, the early contributions to development theory worked mainly within the mainstream paradigm of the allocation of given resources, attributing the related functional role to the price system and to markets. *The distinctive characteristics of underdevelopment were mainly interpreted in terms of the peculiarities attached to the three 'givens' above, namely, factor-endowments, technology and preferences.* A further emphasis was laid upon the structural and other factors that placed impediments against the smooth functioning of the price system and disturbed or distorted the price-quantity signalling mechanism.

Thus, for example, on the question of factor-endowments early discussions emphasised (1) the deficient supply of certain key resources, and (2) the adverse proportions in which they were available. Among the supply bottlenecks were discussed shortage of savings, of skills, of capital goods, of entrepreneurship capital, and so on. Related arguments brought in the adverse man-land ratio or capital-labour ratio.

The structure of available resources and extant disproportionalities were seen to influence technical options as well as output and trade composition unfavourably. Theories concerning 'factor-price disequilibrium' or 'structural disequilibrium at factor level' sought to explain unemployment and underemployment in terms of imperfections of factor-markets or limited factor-substitutability in technology. Lack of mobility of factors, limited factor-substitutability, imperfections of factor-markets were all seen as leading to 'structural dualism'. A considerable literature on the choice of technique and comparative advantage in trade moved around the theme of factor endowments and their efficient utilisation. On the question of preferences, the 'demonstration effects' were seen as distorting the natural progression of demand by creating deviational consumption patterns and discouraging savings.

Alongside, it was recognised that the functioning of markets in these economies left much to be rectified. Structural defects and malfunctioning was associated with certain critical markets and the use of 'implicit' or shadow prices was recommended for rectifying the market failures. Given this analysis, the policy interventions recommended were more in terms of providing incentives/disincentives on the existing markets or **modifying** the existing structure of prices, using either accounting or administered prices.

In economic theory, the first challenge to this resource-allocative view came from Keynes. In development theory too, very soon attention was to pass on to questions of resource creation and structural changes in the economy. (I would return to these in the context of the dynamics of accumula-

tion when I take up the second paradigmatic influence, namely, the classical case of industrialisation that I referred to above. With the shift of emphasis to these 'structural' problems the allocative market paradigm did recede for a while. There was too much concentration on technological linkages and a relative neglect of the specificities of the market (or exchange) systems. The traditional emphasis on 'market' has been revived in recent times. Before however I discuss these shifts I shall turn to the classical political economy's treatment of the problem of prices and distribution which explored the more diverse patterns of production and exchange and their interrelations. This approach to markets, in my view, holds a greater promise as a useful paradigm.

## CLASSICAL POLITICAL ECONOMY APPROACH

The classical writers, in particular Smith and Marx, saw the history of societies as a passage through historical stages characterised by modes of subsistence (Smith) and modes of production (Marx). The continuity in history was provided by the labour-process, human activity reflecting the continuously changing man-nature relationship whereby man derived his material subsistence working upon and with nature; transforming nature and transforming himself in the process. Men carried out these material activities forming social relations, so that various social formations emerged, reflecting different stages in the advance of material forces of production and different forms of production and exchange relationships. Smith saw his 'mode of subsistence' as uniting men into collective social existence and determining the nature of society, with its particular structure of production/property relations and the correlated social 'orders' and 'classes'. He saw, in history, a progressive movement of the economy through four successive stages, hunting, pasteurage, agriculture and commerce. Marx's notion of the mode of production was much more elaborate and comprehensively worked out. Here I refrain from elaborating the details<sup>5</sup> and would like to turn to their theory of prices and quantities rightaway.

A methodological idea shared by these writers was that a particular social formation could be abstracted on the basis of observation and viewed as a system governed by discoverable regularities. The organising concept for theory was one of the 'natural state' wherein were depicted the extant production, exchange and distribution processes of the economy on a 'natural' or 'regular' basis.

The central concept was that of 'surplus' or 'net product' (i.e. difference between gross product and productive consumption, the latter meaning material means of production and of sustenance of labour required for production). An economic system is characterised in terms of the mode of

generation and appropriation of surplus, and the rules by which it is distributed amongst the revenue classes specific to that mode. For instance, under capitalism, surplus is generated through wage labour, appropriated by the capitalist as surplus value, realised on the market and shared among the classes as wages, profits, rents. The role of theory was to discover the conditions of reproduction of these production, exchange and distributive relations so specified. The exchange-value and the form of exchange reflected also the production and distributive conditions so that the exchange values were such as to be consistent with the circulation of outputs and the distribution of the surplus according to the rules of distribution and exchange.

#### 'CHANGE' AND 'CHOICE' IN CLASSICAL POLITICAL ECONOMY

Certain consequences follow from this overall approach and structure. The circular production view meant that the concern was with the accumulation or reproduction process and the purpose was to discover the 'natural' levels, of the quantities and prices, that sustain this process. The view was one of accumulation and of macro-level balancing of activities.

The conceptualisation of change and choice in the classical theory is strikingly different. The data that determine natural prices under competition are effectual demand (or social output), the observed methods of production and the socially determined wage. Given the uniformity postulate of the rates of profit and wages, the prices of production (or natural prices) are the exchange values consistent with these data.

These quantity sets are taken as given but not as invariant. In fact, it is precisely in the dynamics of these magnitudes that the classical theorists saw their analytical task. There appears to be a separate determination of quantities and prices, in the sense that the forces that explain social consumption, methods of production and wages are considered as not entirely or exclusively subsumed within the price domain. The classical theory thus has theories of determination of method of production, of wages and social demand but those magnitudes are not simultaneously or coterminously determined as a sub-problem of relative price formation. There is a much more dynamic story to tell about the interrelationships between levels and changes in output and wages, between the changes in output and techniques and so on [see Bharadwaj 1989b].

An important consequence for the theory of distribution is that 'factor-prices' are not determined *simultaneously with and by the same process* as commodity prices. Thus neither full employment is an assumption nor a conclusion of the system. Marx, for example, considers the reserve army of the unemployed as more or less a permanent feature of the capitalist system. Secondly, the

'demand' and 'supply' conditions of capital and labour are not merely price-related schedules (giving relative proportions of factors corresponding to relative factor-prices) but incorporate dynamic influences generated by the accumulation process itself. The 'efficiency' and 'optimality' of price-guided allocation which is at the centre of marginalist theory has no exact counterpart in classical theory.<sup>6</sup>

The formulation of choice and the position of the individual is also more complex but richer in classical theory. Smith's conception of the 'individual in society' is far different from the atomistic individual of the mainstream theory and his defence of *laissez-faire* needs to be viewed in the context of his system of natural liberty. Smith presents a complex conception of motivations of individuals propelled by countervailing interests and passions. Also, Smith's discussion of the behaviour of economic agents is not one of atomistic decision makers. The individual's activities are analysed more as a member belonging to 'classes' or 'ranks'. The constraints that operate on the individuals, as demanders or suppliers, are multiple. These include the physical and material resources at the individual's command as well as those systemic constraints which circumscribe the person's options. There are constraints that emanate from the process of accumulation itself.

In fact, human progress is seen by Smith as well as Marx in terms of the expanding feasibilities of activities and material opportunities that open out to men and women in their activities along with or on nature. There is a general optimistic view about the progress of humankind in general. But these sets of feasible options do not open out to all individuals uniformly or equally. In fact, given the class-based structure of the society, the process of accumulation may—and does—produce differential impact on different classes and these impacts could be contradictory or conflicting. The process of accumulation has different consequences on the various 'orders'.

At the same time, not all individuals are equally or uniformly placed in terms of the power to take decisions or in terms of the influence their decisions can exert on the path and pace of accumulation. Their class-position is an important factor. The 'ruling classes' could change from one mode of production to another. Not only that; the objectives pursued by different 'orders' or 'classes' or by different sets of producers could be different. Smith, Ricardo and Marx recognised explicitly the different roles played by different classes in the process of accumulation and the asymmetric power and influence of their decisions on—as also the divergent class interests promoted or obstructed by—a particular process of accumulation.

The separate determination of prices and quantities allows the classical theorists to

hypothesise different kinds of quantity and price interrelations between different economic activities and variables at the micro and macro levels and account for their historically *changing* causal interconnection. Smith's analysis of the interaction between 'extent of the market' and the 'division of labour' and Marx's analysis of technical change and the dialectics between forces of production and production relations are representative of this approach.

The classical theory not only brought in the class status of the individual in the above manner but also discussed, in a non-capitalist situation, the forms of exchange value corresponding to different conditions of production, of production relations and of distributive norms associated with the mode of production. The theorists also explained the different distributive revenues (wages, profits and rents) on separate grounds; these grounds were provided by the nature of the specific production (and property) relation and the mode of appropriation of the surplus—by that propertied class. Even under a competitive capitalist regime these different explanations of revenue remained different.

This is not to suggest that the classical theorists did not analyse price-quantity response relations. There was however no universal pattern attributed to these relations, uniformly conceived for all markets (including factor markets as in the neo-classical theory).<sup>7</sup> It would seem therefore that the role that relative prices play in the classical structure is different from that attributed to them in the marginalist theory. The difference is not in the latter being an optimisation model based on the rational profit-seeking individual. The capitalist (or the individual) is also similarly rational in the classical theory and both theories assume the tendency towards uniformity of wages and profits as a characterisation of the competitive system. Their theory of prices and distribution is premised upon a very different structure of models of change and choice. The classical theory appears more open to introducing historical specificities by allowing space for the following kinds of differentiation in specifications of the structure:

- (1) It can discuss conditions of reproduction of diverse modes of production with their specific forms of surplus generation, appropriation and distribution and the corresponding forms of exchange value.
- (2) The 'demand' and 'supply' conditions on the market may be seen as influenced by various factors and not reduced to price-related variations alone. The neoclassical theory, with its narrow formulation of the demand and supply schedule, is compelled into making a distinction between movements along the curve and shifts of the curve and then attribute the latter to changes in the *ceteris paribus* conditions and thereby leave them out of the

domain of pure economic analysis and push them into sociology, anthropology, history or engineering.

- (3) The classical theory can discriminate between commodities (e.g. wage goods/luxury goods distribution) and apply different price-quantity response behaviour. It is interesting to note that while Smith, Ricardo and Marx did discuss, in specific cases of individual commodities or general cases of commodity groups, the changes in demands/supplies with respect to change in price they did not generalise the notion to demand and supply curves or speak of 'elasticity' conditions in general terms. In contrast, the marginalist theory appears to have applied a uniform logic of supply and demand determined prices to all domains of activities and all spheres of choices. The classical theory, in contrast, attempted 'short chains of reasoning' and allowed for multi-structured, differentiated relations of production and exchange, even within a competitive capitalist economy [see Bharadwaj, 1990].

It is this relative openness of the classical political economy, to take cognisance of different institutional set-ups and social conditions as well as diversity of production and the related distribution and exchange processes that suggests the theory's potential for creatively extending the analysis to developing economies. I turn now to observe certain striking features of the Indian developmental experience that should find a reflection in our analytical exercises.

## II

### Search for Industrialisation Strategies

In the early phase of the search for industrialisation strategies when the concern was more with the question why growth in per capita income was so tardy in developing countries and how it could be accelerated, attention was fixed on aggregate macro-relations. It was argued that the critical constraint was savings, the vicious circle of poverty running through low incomes, low savings, low investment, low productivity and in turn, low rate of income growth. The economy was constrained basically by supply-side factors; the Keynesian multiplier mechanism, typically associated with short period situations of deficient aggregate demand, was considered as inoperative. In a closed economy, savings would be raised through fuller and more efficient utilisation of existing resources, through increasing the rate of utilisation of labour and capital (where surplus existed) or through relocating the existing resources from low to higher productivity uses, through appropriate technological choices, like using more labour-intensive techniques where labour was relatively more abundant, or land-saving techniques where land was short. An important strategy would be to

transfer surplus labour in agriculture to higher productivity industry. This agriculture-industry sectoral divide was suggested by the past history of industrialisation.

#### THE CLASSICAL CASE

Indeed, the classical case of industrialisation, England, had been analysed as a transition from feudalism to industrial capitalism, as a transfer of labour and resources from agriculture to industry. Capitalism had spread in agriculture and in industry with a number of mutually supporting tendencies at work: concentration of property in land, proletarianisation of peasants, large productivity gains of capitalist agriculture providing labour and resources to industry and industry, at the same time, absorbing the proletarianised labour, advancing productive forces and with a widening circuit of commerce, accumulating large surpluses. With incomes advancing both in agriculture and in industry, they mutually generated home markets with profits continuously reinvested. (All this is not to suggest that this process of 'primitive accumulation' was a painless one and one entirely without hitches.

A striking experience of agriculture-dominated countries like India at independence was the tardy growth of the 'modern sector' which remained a small island, amidst a vast agriculture sector with very weak links, in terms of labour and material resources, with the industrial sector. The industrial sector itself remained lopsidedly developed with a shortage of capital goods.

In the sixties it was widely recognised by the third world theorists that the path of capitalist development associated historically with 19th century Britain—the first country to lead in capitalist industrialisation, could no longer be replicated by others, particularly by third world countries. These have to operate in a different historical conjuncture and international environment and have very different individual histories. However, many of the analytical problems recognised as shaping the development processes, such as, the analytical sectoral division of agriculture-industry, the issue of resource transfer from agriculture to industry, the formation of wage labour and the dissolution or otherwise of feudal relations informed the analysis of the industrialisation process, as points of departure, if not of similarity.

#### MAHALANOBIS STRATEGY OF INDUSTRIALISATION

Mahalanobis [1963], whose model of planning was to influence the Second Five-Year Plan, recognised the basic structural limitations of the Indian economy. The basic constraint on development was seen by him as the acute deficiency of material capital. Also while the low capacity to save, consequent upon low incomes, was a constraint on the speed of accumulation, the structural limitation in transforming even the limited

savings into productive investment was the lack of material capital. While accepting that the chief aim of planning in India must be to solve the problem of unemployment as quickly as possible, Mahalanobis maintained that "the only way of eliminating unemployment in India is to build up a sufficiently large stock of capital which will enable all unemployed persons being absorbed into productive activity. Increasing the rate of investment is, therefore, the only fundamental remedy for unemployment in India" [Mahalanobis, 1963, p 122]. It was this conviction that led him to argue for the heavy industry strategy (i.e. apportioning a larger proportion of investment to the investment goods sector as compared to the consumption goods sector) so that the rate of growth could be raised and a high rate of consumption growth attained in the long run. In order that the employment situation might be directly tackled, Mahalanobis suggested as a basic strategy for India "to increase investment in heavy industry and also expenditure on services to increase purchasing power and create fresh demand; and on the other hand, to increase the supply of consumer goods by increasing investment and production as much as possible in the small and household industries to meet the new demand". Mahalanobis argued that consumption and investment could be increased at the same time. Thus the strategy suggested was to walk on two legs to stimulate income and demand through public priority investment in basic industry and services and to absorb labour through this demand for other investment goods (via the acceleration effect) and demand for consumer goods (via the multiplier effects) through labour-intensive production in small-scale and household sector. Here we shall not enter into the questions related to the actual implementation of the policy, nor the particular historical conjunctures which affected its outcomes of gains and failures. As a strategy of industrialisation we shall look only at some selected features: (1) It is to be noted that the main objective of the strategy was achieving full employment in a reasonable period: "The aim would be to increase the national income as much as possible while progressing towards full employment and to continue to increase national income after reaching full employment. This is the logical basis of the two objectives of (a) increasing employment, and (b) attaining a satisfactory rate of increase of income which have been adopted in the Plan Frame" (1963, p 3). (2) The policy of relying on small-scale labour-intensive technologies was viewed not as a strategy to alleviate poverty but as providing productive employment—and continuing employment at that—to a large section of the population.

We may only briefly note some of the shortcomings of this view: (1) Mahalanobis did not pay adequate attention to another severe constraint on the supply side, namely 'food'. He implicitly assumed that the

agricultural sector would adopt itself fully to provide the requisite marketable surpluses and that labour would be mobile enough to be absorbed into consumer goods sector and services. (2) He did not anticipate the cost-escalating delays and the accumulating pressures on the foreign exchange resources. (3) He assumed that both the accelerator/multiplier linkages would work smoothly and the backward/forward stimuli would be received and fructify in terms of real outputs. (4) He assumed that with the basic thrust provided by the public investment, private investments would match. (5) He did not also work out the full distributive implications of the strategy and the impact on the demand patterns. Mahalanobis did not take account of the institutional environment in which he was setting up his strategy—the backward agriculture, the complex variety of market structures and planning within the mixed economy. His logic was forceful but excessively ‘commodity-centred’. (Here I do not enter into the argument whether the strategy was mischosen or whether it should be interpreted as reflecting an ‘urban bias’ or whether it was based on the strategy of ‘primitive accumulation’.)

#### LEWIS STRATEGY

Another strategy that has been widely discussed is the well known Lewis model which explicitly modelled a dual division of the economy into modern capitalist industry and pre-capitalist agriculture on institutional lines. The view of industrialisation was again supply-constrained, Lewis having called his model, being savings-driven, explicitly ‘classical’ (as opposed to Keynesian). The capitalist industry sector which was presumed also to be governed by the competitive rules of the game was the leading sector where capitalists reinvested their profits. The pre-capitalist agriculture sector was considered a passive reservoir of surplus labour which could be available to industry at a constant wage (i.e., infinitely elastic supply of labour to the industrial sector was presumed initially). So long as labour was available at the constant wage, industry would reap profits which would be reinvested to expand the capitalist sector. The limit was set by the exhaustion of the surplus labour in agriculture when the wage in agriculture would also attain a competitive level (equal to marginal product). In later advanced versions of Lewis [see among others, Ranis and Fei 1961] the crucial constraints on extracting marketable surplus from agriculture and transferring labour (through either institutional reforms like collectivisation, fiscal instruments like procurement, levies and taxes, or market instruments like terms of trade variations or variations in intersectoral wage differentials) were discussed. The attention then was focused on the question of resource transfer (labour and marketable surplus) from agriculture to industry under various regimes.

The analytical limitations of such a dual

economy model may also be briefly pointed out. (Here I am considering a closed economy.) Initially agriculture was taken entirely as a passive sector—as a reservoir of surplus labour, and a condition for the industrialisation process to continue was the infinitely elastic labour supply curve. It was only at later stages that the issue of growth of agricultural output and its transformation into marketable surplus releasable to the industrial sector was considered explicitly and the feedback effect of industrialisation on terms of trade taken account of. Later discussions have questioned the presumption of regular supply responses (whether of output or marketable surplus to price changes) and the presumed regular influence of the terms of trade. These observations question the use of the price system as an effective instrument for guaranteeing resource transfer. The explanation of migration of labour on the basis of rural-urban wage differentials is also questioned by empirical findings [see Bharadwaj, 1989c]. (b) The conception that the industrial sector is itself homogeneous and that there are no other supply constraints except savings leads the model to suggest that the greater the share of profits, the greater the rate of growth. No demand constraint arises in the system, all savings being invested and there is no problem in maintaining the incentive for investment, nor are there problems created by the evolving structure of demand.

The practical experience with the process of industrialisation however shows that the conceptualisation of either agriculture or industry as internally homogeneous sectors and externally linked only through labour and food transfers is not only restrictive but also misleading. Such a depiction founders on the following difficulties:

(1) Given a differentiated peasantry and an uneven spread of commercialisation and unformed or partially formed markets, the price-quantity response relations in the agrarian markets cannot be over-simplified to the ‘regular’ supply and demand responses in the market.<sup>8</sup> In industry, too, where organisational forms differ, the pricing and investment policies cannot be reduced to uniform and exclusively price-related behaviour. There are distinctly recognisable institutional forms of production and organisation which need to be reckoned with.

(2) The industry-agriculture relation (in terms of material and technological relations as well as demand relations) has been fast changing with complex resource flows occurring between the sectors whereby incomes produced in one sector may be remitted to the other. Services as an interlinking sector and the rise of towns and the periphery makes the boundaries between the two sectors hazy and the dynamics of income generation and disposal complicated.

(3) As remarked earlier, while the occupational classification of the workforce does not show much changes in the aggregate, it is widely known from field observations that

considerable migration of labour (rural-urban as well as rural-rural) is occurring. This mobility of labour is as yet difficult to interpret in terms of long-term livelihood patterns, particularly whether it is a sure breakaway from the situation of a land-locked peasantry or whether it stabilises the survival of the petty holders in agriculture.

(4) With growing differentiation within agriculture and the capitalist market forces advancing unevenly among agrarian classes and particularly with public investment increasingly active, the emerging pattern of development does not fit in with the classical one. In fact, when the labour transfer to industry appeared very slow the strategy of labour absorption in agriculture was proposed in most of the Asian countries. As a consequence of the Green Revolution and rapid strides in output, due to both intensive cultivation and larger yields, there appear to have been a phase of rising labour absorption in the seventies in the HYV belt. However, recent studies show that the elasticity of employment, probably due to mechanisation is showing a decline.

(5) While the accent in these strategies has been on the supply side constraints, the changing structures of growing inequalities and the lack of income generation create an effective demand problem in the short as well as long run. In the short run, it appears as a structural problem: there would be demand deficiencies created for particular industries (e.g., the diversion of demand from cotton textiles when there is food shortage and food price inflation). There could apparently arise a ‘realisation crisis’ as is faced by the rich peasantry in disposing of their growing surpluses (concentrated in the rich regions and among rich farmers) and their consequent demand for price support even when malnutrition or starvation is rampant among large segments of the population. Also, the small household and artisan sector often faces demand shortages.

#### MACROECONOMIC FRAMEWORK: SUITABLE SECTORISATION

What this brief sketch points to is that any macroeconomic model would have to adopt a sectorisation bearing in mind the following structural features:

- (1) There is a growing technical/organisational differentiation (in terms of size, technology) within the industrial and services sector and these pursue different investment and labour policies. Particular attention must be paid to the services sector which is showing considerable heterogeneities.
- (2) There is a growing differentiation in the labour processes in terms of categories of labour, wage differentiation and conditions of labour. This applies not only to organised labour but also agriculture.
- (3) There is differentiation in consumption demand patterns calling for a classification of consumption commodities. The urban and rural baskets are fast chang-

ing but the income-class based demand differentiation is widening, with new commodities and their demonstration effects active. The intersectoral links of the small-scale sector with industry and agriculture through its labour and material input-output linkages are not yet sufficiently investigated. On the one hand, a system of sub-contracting by big industry appears to have emerged particularly in the consumer goods and services as well as in highly sophisticated newly developing sectors of electronics, etc. On the other hand, a number of 'non-agricultural' activities are also emerging in urban areas as well as towns and villages. In order to understand the mobility of labour, the links between the 'organised' and the 'unorganised' sectors need to be analysed. Thus an attempt should be made to so sectorise the economy that the changing interlinkages between employment, output, distribution and exchange are captured.<sup>9</sup>

#### LABOURIST APPROACH

I would like to end this bird's-eye view of development theory with a plea to return to the 'labour-ist' perspective of classical theory. I shall only briefly outline my argument. (Some of the arguments have been developed elsewhere; see Bharadwaj 1989.)

I have in the above repeatedly drawn attention to the fact that the premises which explicitly or implicitly were adopted concerning the adjustments that labour, considered as a 'factor of production', would make to the investment strategies have not been borne out. Implicitly, it appears to be assumed in such a commodity-production-centred analysis that there is a symmetry among the factors of production on the basis of which an 'efficient' utilisation of one factor (in particular, capital) would lead to the efficient use of the other and the 'productivity' gains attained through the maximum profitable use of the one would ultimately trickle down to the other. While the presumed macro dynamics of the Mahalanobis and Lewis models has differences, a shared element is their concentration on the efficient growth paths of the capital commodity sector—'labour' is only to be 'absorbed'. In such a situation anomalies arise, such as, the fast development of the commodity sectors may not synchronise with efficient utilisation of social labour. As has happened in capitalist societies, management of employment becomes a part of 'welfareism'; the sphere of policies concerning production get separated from that of 'distribution'. In mixed economies, the more the accent is placed on the former sphere and the more the policies follow the logic of the 'market', the greater the need for policies for 'poverty alleviation' as relief measures. We have noted above that Mahalanobis suggested the development of small-scale industry as a mode of productive, sustainable employment providing a permanent livelihood. There is no greater paradox in India today than we

find that the Khadi and Village Industries Board-supported institutions approach the courts of justice to claim exemption from labour laws on the ground of being charitable institutions.

#### THE LABOUR-IST VIEW

There are two similar ways of analysing the rate of growth of output decomposed in statistical terms. First, the Harrod-Domar fashion, in terms of the rate of capital accumulation and productivity of capital. The second way, as Adam Smith did, is to define the same in terms of the productivity of (productive) labour and the proportion of productive labour to total labour of the society. (Let me add that it is not 'capitalism' that dictates the first approach. Smith was also analysing capitalist production and addressing the same questions.) Approaching however the problem of development from the neoclassical 'market' analysis to explain production and investment behaviour, we do end up in different macroeconomic norms of efficiency. For example, in a market economy, there would be market forces that drive the economy towards efficient capital utilisation but although 'labour power' becomes a commodity, there is no such built-in force on the market that tends to increase the participation rates of labourers providing them livelihood (particularly when they do not have access to means of production or subsistence) or to absorb the social labour in production activity. (The task of reproduction of labour power is entirely privatised to the household even while private capital becomes socialised.) The difference in the viewpoints becomes clear when the concern of planners turns exclusively to improving the competitive efficiency of capital while the tremendous social inefficiency involved in a large proportion of the population engaging in work that cannot even produce their subsistence (those recorded below the poverty line) becomes solely a matter of 'poverty alleviation' through relief schemes. From the social accounting point of view, this huge mass of people unable to earn a subsistence is 'unproductive'.

The attempt of the theorist to treat labour on par with capital, as a factor of production, meets difficulties even when labour power itself has become a commodity and the capitalist labour market is formed. The difficulties are manifold when production for subsistence is intertwined with production for exchange (for profit) as in agriculture and artisan enterprises, where the capitalist relations are not yet pervasive. The labour market cannot signal labour allocations; the mobility of labour, either among different activities, across occupations, across regions, cannot be explained on the grounds of the wages-calculus alone. The supply and demand for labour is determined by various complex considerations and there emerges a segmentation of workforce and markets.

Analytically it should be possible to reconstruct the macro dynamics of develop-

ment, taking the clue from the political economy of Smith and Marx; both used the approach to analyse capitalist accumulation, the strident advances of productive forces, expanding commerce and changing social relations.

Smith opened his *magnum opus* stating: "The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniences of life which it annually consumes and which consists always either in the immediate produce of that labour, or which is purchased with that produce from other nations." (This was a ringing departure from his predecessors, the physiocrats and the mercantilists, in locating the source of wealth in the *annual labour*.) He was to identify further the welfare of the nation in terms of "whether this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are to consume it" (i.e., in terms of per capita income). He proceeds then to analyse how this proportion is regulated by two *different* circumstances: "First, by the skill, dexterity and judgment with which labour is generally applied" (i.e., labour productivity) and, secondly, by the proportion between the number of those who are employed in 'useful' labour and that of those who are not so employed. We may note that Smith thought of these as two different circumstances, namely, productivity of labour and the proportion of 'productive' to 'unproductive' labour. From then on Smith explains the wealth of the nation and its rate of change in terms of the forces that act upon the productivity of labour—his famous analysis of division of labour (within the workshop and social division of labour) and its interaction with the 'extent of the market'. The distribution of labour between 'productive' and 'unproductive' employment is also attempted to be explained in terms of social, economic and cultural patterns (consumption and investment habits of different classes, the organisation of the civil society). Smith interpreted the performance of the economy, or of a particular sector in terms of the stimulus the sector gave to productivity of labour (through division of labour) and the amount of productive employment it generated directly or indirectly. The proportion between the productive and unproductive labour depended upon sectoral allocation of social labour to different activities, agriculture, manufacture and trade.

Further Smith talked also about resource allocation in the context of accumulation, differentiating between different patterns of development, arguing: "Though all capitals are destined for the maintenance of productive labour only, yet the quantity of that labour, which equal capitals are capable of putting into motion varies extremely according to the diversity of employment; as does likewise the value which the employment adds to the annual produce of the land and labour of the country" [*Wealth of Nations*, 347].

While there would be considerable debate

on Smith's—or for that matter, Marx's—definition of 'productive' and 'unproductive' labour, it may be remarked that both sought to define the terms in their historically specific context. What is interesting is that both made an attempt to distinguish between forms of labour from the accumulation point of view, Marx having specifically connected the notion of productive labour in a capitalist society to production of surplus value. Both looked upon the process of development as the continuous transformation of Man-Nature relationship, mediated through systems of subsistence or social organisations and interpreted the performance of the economy in terms of the changing forms and productivity of the Labour process.

It is in Marx that we find a detailed analysis of the Labour process attempting to integrate his historical and philosophical insights in understanding the dynamics of societies. Marx analysed, in the well known chapters in *Capital*, the technological changes that took place in England, tracing how the nature of the Labour process changed, qualitatively transforming the capital-labour relations and bringing about changes also in intra-capitalist relations. The changing capital-labour relations was reflected in the various strategies adopted by capitalists to extract surplus value. He drew also the macro-level consequences of these changes in terms of investment, in wage-profit distribution and in their effects on social demand. This constant interaction between technical change, distribution, output levels and labour use was described historically through the analysis of the Labour process.

I would conclude with a note of caution. When I talk about borrowing from the classical theory its labour-ist approach I do not propose that their specific analytical derivations are to be accepted. It would seem that the commodity-centred approach lost sight of the tremendous changes that are transpiring in the economic and social conditions of labour. My suggestion above to build the macroeconomic systems on a purposeful sectorisation should not be seen as abandoning or rejecting the past efforts but to turn the angle of our vision. We have possibly neglected too long the basis of our wealth, in the 'annual Labour'.

#### EMPLOYMENT POLICIES AND THE LABOUR-IST PERSPECTIVE

The above macroeconomic perspective calls for a restructuring of the employment objective and policies. I have indicated earlier that the commodity-centred strategies of growth while promoting output growth have shown a feeble impact on employment. With state policies increasingly geared to the maintenance and promotion of the capitalist sector (under the national and international compulsions to attain efficiency on international standards), increasing resources—both public and private—are deployed to attain the objective. Consequently a divide has emerged, not so much between 'agriculture'

and 'industry' or 'urban' and 'rural', but between the modern capitalist sector and the beneficiaries thereof and the other sector of those without adequate means of livelihood or sustenance but who nevertheless are fully drawn into the web of commercialisation and the market economy. With the trickling down of the growth impulses acting very weakly, this process of differentiation leading not only to income and wealth inequalities but to different processes of income-generation and life-styles amounts effectively to near disenfranchising a majority of their economic votes on the market although in a democratic regime they have the political votes. Such a situation has also brought about the dichotomisation in the plan objectives: the growth objective that stresses the promotion of the 'modern', 'technology-intensive' sector through policies of incentives/disincentives on the market and the equity objective of promoting employment as a strategy for poverty alleviation—a dichotomy historically institutionalised in the formation of the welfare state in the developed capitalist world.

This strategy, separating production (equated with growth) and distribution (equated with equity) runs into many contradictions. First, is the fiscal crunch and the crisis in raising resources from the advanced sectors (the ones that have taxable surplus) without endangering the 'savings and investment climate', seen as imperative for stimulating growth even while the resource-needs for poverty and welfare management escalate with mounting social and political pressures on the state. Secondly with sharply differentiating income and demand patterns at home and not too hospitable international markets there arises a short period as well as long period demand problem, in addition to the supply side constraints, which is reflected in the continuing need for maintaining and supporting the investment incentives in the capitalist sector—whether in agriculture or in industry. If the demand side has been maintained for this sector it has been precisely because of (a) the state assistance through fiscal and monetary instruments, (2) the income generation process in the modern sector, particularly in the expanding services sector which have exposed the recipients to new life styles, new consumption patterns, (3) the expanding markets encroaching upon the domains which could have developed as independent small-scale activities. Indeed in many industries, particularly in consumer goods and services the pure scale-economies factor is not overwhelmingly significant in production. This is evidenced by the fact that a number of big monopoly firms have successfully farmed out or sub-contracted production to small-scale units, maintaining however a central control over standardisation of quality, the marketing channels, brand differentiation and on raw materials and credit supplies. It would seem that economies of scale are enjoyed by these firms in terms of the marketing of products,

access to credit, raw materials and to the state administrative machinery. On the other hand, these mass-produced (or producible) goods, produced and marketed by the monopoly firms not only capture markets among the lower income groups but offer them at prices with hefty trade and distributive margins. The 'modern sector' appears to sustain itself through its creation of incomes as well as a category of consumers and styles of consumption.<sup>10</sup>

Employment policies directed to creation of employment through financial support/incentives to artisan industry (e.g. the Khadi and Village Industries Board institutions) or through asset creation under schemes like IRDP have shown limited success in providing self-sustaining productive livelihood even for the direct beneficiaries, leave alone generating a dynamic stimulus to employment. This is possibly because, given the extant production and exchange conditions within which such small entrepreneur activities are launched, the producers suffer from both the supply side as well as the demand side constraints; the former being the regular provision of raw materials or of credit which partly explains also their low level of technology and absence of quality control. The demand side constraints appear as lack of access to regular markets and lack of demand. The absence of quality control and marketing networks means that the commodities of mass consumption cannot be produced through privately owned small-scale or household establishments.

A viable policy to generate productive and sustainable employment in the labour-intensive small sector cannot therefore be designed without considering its macro-economic linkages with industry, agriculture and services. The policy can only be an integral part of the macroeconomic management of the economy within which specific policies to overcome the demand and supply side constraints on the small-scale, decentralised production would have to be placed. The policy package would have to evolve an integrated system of production plans, balancing outputs and incomes that are generated with the demand arising from such incomes.

Our analytical discussions suggest that there are severe shortcomings of operating the employment policies, particularly in rural areas, in the extant institutional conditions. Neither the trickle-down view on development nor the welfarist perspective on poverty alleviation appears to be viable as long-term strategies. Creating small entrepreneurs and petty private-sector activities on the basis of incentives provided in specific markets (subsidies for credit, assets or raw materials) have not brought in substantial changes. What is needed, it would seem, is a restructuring of the processes of income-generation and demand management which would allow diversification of livelihood for those who are currently precariously depending on agriculture. Such a restructuring would demand institutional innovations for

establishing co-operation and co-ordination among the small-scale activities. This is a challenge to social scientists, planners, administrators and, most of all, to the people who would participate in this endeavour.

### Notes

[This is the text of the author's D'Souza Memorial Lecture presented at the annual conference of Indian Economic Association held at Trivandrum in December 1989. I am grateful to the IEA and its president for 1989, Amartya Sen, for inviting me to deliver the lecture. Due to unavoidable circumstances, I could not be present in Trivandrum to deliver the lecture which was presented in absentia.]

- 1 According to the *World Development Report*, the per capita output is more than 20 times higher in the developed economies compared to the average for the developing economies.
- 2 These issues have been discussed at greater depth in Bharadwaj 1976, 1989a and 1989b.
- 3 See Bharadwaj 1989a and 1989b. The simultaneous determination of prices and quantities within the interdependent network of demand and supply relations also implies that a 'failure' in any one market (or a non-existence of equilibrium in any one market) implies also a 'failure' in others. This underlines the significance of the capital theoretic controversy of recent years which questioned the explanation of the long-run rate of profit as equilibrium price in the capital factor market.
- 4 This peculiarity of exchange systems where 'discrimination' arises is dealt with in Bharadwaj 1985 and 1990. The overwhelming importance of initial factor endowments and the perfect symmetry envisaged between 'factors of production' as far as the 'market behaviour' is concerned is illustrated by the fact that in theoretical factor models establishing equivalence between the equilibrium wage and the marginal productivity of labour at that point the two alternative routes are deemed equivalent: either the capitalist hires the labour or the labourer hires the capital; the only difference between the capitalist and the labourer is that the former owns only capital and no labour as his endowment while the latter has only labour and no capital as his endowment.
- 5 For a short comparison between the Scottish school of historical materialism and Marx's dialectical materialism, see Bharadwaj 1989a, chapter 2.
- 6 Thus while in classical political economy producers and consumers behave rationally seeking their self-interest, the problematic of establishing the market equilibrium as a position of maximum welfare did not arise until the utility maximisation was suggested as the behavioural premise on the demand side symmetric to profit maximisation on the supply side. (See Bharadwaj 1989, chapter 2 and Bharadwaj K and Schefold B (ed), 1989, pp 59-62 and 95-98.)
- 7 Nor are these price-quantity responses a logical requisite for the determination of the natural position as is the case for the establishment of equilibrium in neoclassical

theory. Thus no a priori relation between levels of output and per unit cost of production of a commodity needed to be universally postulated in the classical theory. The latter did not need to insist on a specific returns to scale assumption as a prerequisite. (See Bharadwaj, K and Schefold, B (ed), 1990, Samuelson's article and discussions thereupon.)

- 8 See Bharadwaj (1988) for a discussion of the efficacy of agricultural price policy as a 'positive' instrument in the Indian context.
- 9 I myself made a preliminary attempt to construct a sectorisation that attempts to capture in the inter-industry relations frame these aspects of output, technology, labour and demand differentiation (Bharadwaj 1978, 1990).
- 10 Sylos-Labini (1962) discusses how the oligopolist firms adapt wage policies to differentiate workers and create a class of consumers. See also Bharadwaj 1979.

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