

The discourse of planning and political economy in postcolonial India: from a fractured compromise to a democratic consensus

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1. The patchwork consensus

As in the case of almost every other kind of discourse in postcolonial India, the discourse of planning also had its moorings in the colonial past. Deliberate policy making with state help for economic development was part of the early economic nationalism of such thinkers as R.C. Dutt, G.V. Jushi, Dadabhai Naoriji, M.G. Ranade and G.K. Gokhale (Chandra, 1969). But planning in the stricter sense of chalking out a programme of expenditure and administrative (or political) action for national economic development in the light of the availability of resources and assessment of needs seems to have gained currency from the 1920s. M. Visvesvaraya can probably be regarded as the pioneer in talking about planning in India in this sense (Visvevaraya, 1920, 1934; Chattopadhyay, 1985).

As the case of Visvesvaraya underlines clearly, economic planning was not the hobbyhorse only of some economists or some nationalists with a bias towards public enterprise and socialism. As far as I can make out, at least three streams of thought fed the movement for economic planning since the 1930s. One was a basically conservative nationalist trend which looked upon private enterprise as the major instrument of development but which wanted the state to step in wherever private enterprise was inadequate for the job or wherever private enterprise had to be promoted through government subsidies or protection of various kinds. Visvesvaraya and the framers of the Bombay Plan clearly fit this pattern. The second was an official or technocratic stream which regarded economic planning as an essential adjunct to the effort at administering and improving the poverty-stricken land that India was. For such advocates of planning, deciding between state and private action was pu-

rely a matter of administrative convenience or instrumental effectiveness. From Sir George Schuster, the retrenching Finance Member of the 1930s with a private hankering after planning (Chattopadhyay, 1985) down to Sir Ardeshir Dala, many officials and policy-makers of the Government of India would fit into this mould. The third strand was represented by those economists, politicians and publicists for whom economic planning was an essential part of a strategy to construct a socialist society in India. For many of them, indeed economic planning and the expansion of public enterprise became synonymous with an advance towards socialism in India.

The ability of the young Soviet Union to withstand the effects of the global capitalist recession and to industrialize rapidly demonstrated to many, and they included professed conservatives as well as socialists, that national economic planning would be an effective instrument of economic advance. However, planning or sustained economic development was not part of the legitimating discourse for colonial regimes. A discourse of planning and a discourse of upliftment of the poor were part of the process of legitimation of the demand for a state which would shake off colonial control. The post-colonial Indian state did not come into being as the result of a successful armed struggle conducted by the native bourgeoisie with the publication of Jawaharlal Nehru's *Discovery of India*, but this was an adulthood which hid behind the patriarchy of the traditional order and the squirearchy of British officialdom.

Side by side with the rhetoric of planning ran the rhetoric of "Harijan" improvement, revival of village industries and restoration of a traditional *Ramrajya*, based on rural self-sufficiency and social harmony - a rhetoric which was personified by the dominating and charismatic figure of Mahatma Gandhi. While Gandhi's magic roused the popular masses, the take-over of an existing state apparatus with least disturbance to the powers and class relations in society could not be effected without a strategy for incorporation of the most thrusting elements of the ruling classes in the emerging enterprise of transfer of power. Power was to be transferred rather

than conquered; power was to be appropriated rather than destroyed and transformed. This over-riding goal determined the character of planning that came to be theorized about and institutionalized in policy documents, administrative measures and formal bodies such as the Planning Commission and the National Development Council.

The Gandhian perspective on rural development proved inadequate for providing a framework of administrative guide-lines and a rationale for an activist state. One indication of this was the elaboration of a "Gandhian plan" by Sriman Narayan. The feeble bureaucratic impulse towards planning in the Government of India circles was suppressed during the 1930s but resurfaced with some vigour when top officials wrestled with the task of delivering much-needed military supplies by squeezing a very poor agrarian economy. This impulse was given an expression in the exercises carried out at the end of the second World War by the Advisory Planning Board set up by the Government of India and by the various departments of the central government, with a view to reconstructing and developing major sectors of the economy (GOI, 1947; UN, 1947; Bagchi, 1963, chapters II - IV).

The consensus about the rhetoric of planning was based not only on the vision of an activist state. It was based also on an agreement that the state would not seriously interfere in the processes of money-making and power-wielding within the society. Jawaharlal Nehru's rhetoric of socialism had already been assessed at its true worth by G.D. Birla and big business in India in 1936 (Chandra, 1979; Markovits, 1985, chapter 4). Nehru emphasized his willingness to go along with the designs of big business - who were the framers of the Bombay Plan of 1946 - when he publicly opposed the direct tax provisions of the budget of Liaquat Ali Khan, in spite of a prior agreement to the contrary at a confidential cabinet meeting (Chattopadhyay, 1988). The consensus involved not only Indian big business but also foreign capital with which Indian big capital was eager to collaborate. Again, in 1949 the Central government brought out a special statement assuring foreign capital

that its existing bastions would not be assaulted by the new government and that it would be allowed to expand in most fields of economic activity (with the exception of a few sectors reserved for the government).

The elite consensus began to look frayed at the edges when it came to the rural sector. Already in the 1930s the Congress in most major provinces of India had come out in favour of abolition of zamindari and intermediary rights in land: the Bengal Congress, for narrow and sectional reasons, had dragged its feet over the issue and had paid dearly for it. The Congress pronouncements around the year of independence seemed to promise more than the legal abolition of intermediary rights in land.¹ The *Report of the Congress Economic Programme Committee* (presided over by Nehru), submitted in January 1948, proposed the abolition of intermediary rights in land, the definition of a maximum size of holdings, the acquisition of the surplus over that size and distribution of the surplus land to village co-operatives entrusted with the management of that land. The Congress Agrarian Reforms Committee, presided over by J. C. Kumappa, went in detail into practically all the issues relating to agrarian relations in India. Besides recommending the abolition of intermediary rights and making concrete recommendations about the way the size of the maximum permissible holding should be fixed, the Committee also recommended that any tenant who had cultivated a piece of land for at least six years should be accorded full occupancy rights.

However, the rural oligarchs, with the support of the legal machinery forced the central Congress leadership to effectively shed most of the land reform proposals except the abolition of intermediary rights.² The activist state at the centre became enmeshed

¹ For a history of the Congress resolutions and policy pronouncements from the 1930s upto the beginning of the 1950s, see Malaviya (1954), chapters 2 and 3.

² The best account of the legal devices used by the rural oligarchs to defeat even the diluted land reform proposals in most Indian states, is to be found in Thorner (1976).

in a patchwork of absentee landlordism, resident landlordism, rich and middle peasant farming and sharecropping on minuscule plots. The constitutional provision for the concurrent state rights to regulate agriculture underlined the nature of the consensus under which the central government could manage the visible commanding heights in the cities provided they left the mud fortresses of the rural oligarch alone.

But, of course, the extending tentacles of a burgeoning administration, finance and trade could not but reach out also to those rural fortresses. While the reality of oligarch power was recognized, the nature of the exercise of that power was sought to be transformed through co-operatives, panohayats, and community development schemes. The imperative to reach out to rural areas, by circumventing rather than directly challenging the rural social order partly explains the bizarre influence that a U. S. architect, Albert Mayer, seems to have exercised on Nehru's community development initiative (Thorner, 1981).

The filibustering of the rural oligarchs succeeded in slowing down the pace of land reforms and eventually stalling them altogether, despite vociferous and sometimes violent protests by the landless, the uprooted autochthonous groups, and by organized political partners and activists on the left. The Ladejinsky report on IADP areas urging peasant-oriented land reforms as a condition for the success of the Intensive Agricultural Development Programmes, was successfully buried in virtually all the states. The world-view of the rural magnates was reinforced by the technology and the ideology of the US and World Bank lobby who proclaimed that in the rationally ordained countryside of India what was needed was not land reforms but fertilisers and higher-yielding varieties of crops.

If there was an "urban bias" in Indian planning, it took the form of the refusal of the urban elite to disturb the rural order as supervised and lorded over by the Takurs, the Rajputs, the

Rhumihars, the Reddys, the Gounders or the sugar and groundnut barons. The crisis in agricultural production in the middle years of the 1960s had two contradictory effects. On the one hand, the patched-up consensus at the top had to be replaced by a patchwork of coalitions extending from New Delhi to various challenging networks of power in the states. The explicit assumption of authority by vocal representatives of local power networks was helped by the enrichment of landlords and rich peasants through a turn in the terms of trade in favour of agriculture, and the doling out of large subsidies for the use of irrigation facilities, fertilizers and farm equipment.

However, the enrichment of the farm lobby and the local magnates was not always a smooth operation of "transfer of power". Many of the state governments along, of course, with the central apparatus of paramilitary forces and surveillance, were faced by peasant insurgencies. The insurgencies generally had deep historical roots of resistance against economic and political invasion by outsiders; but they were also newly empowered by various shades of Marxist and Maoist ideology.

2. The contentious elite and the discourses of incorporation, dissent and resistance.

The consensus at the top even while it lasted did not always look like an achieved fact. It often looked like contentiousness: there were, of course, issues to be fought over, resources to be contended for. The area of operation was the whole reach of the state and society. The constitution and the laws defining the limits of state power, of central power as against the power of the regional satraps, of the private domain of custom, usage and religion - these were all objects of contention as well as of attempts at transformation. The state was forced to minimalist as far as civil relations - of marriage, inheritance and partition - were concerned, but in intention at least, bureaucratically interventionist when it came to the sharing of commercializable relations and resources. Investment

licensing which was supposed to ration resources for attaining socially desirable ends became an instrument of patronage in the hands of bureaucrats and politicians. The division of the economy between the private and public domain shifted with shifting perceptions of the elite about the constraints and opportunities. When private investors felt strong enough to take over some domain which had earlier on been reserved for public enterprises, a demand for liberalization surfaced in the journalistic literature. When on the other side, businessmen wanted the state to generate markets through its own actions at public risk, the demand for planning by the government became more strident.³

The co-existence of a public and a private sector had been accepted as part of the fabric of the Indian polity from the very beginning. Through all the mutations of the Congress slogan of "a socialistic pattern of society", "socialism", or "a mixed economy", that design was never seriously questioned. The design required, however, that the central government's discourse should be statist in enunciation, however soft that state might be on the ground. The discourse on planning was part and parcel of that statist enunciation.⁴ The government had at its command several resources and regulatory functions related to those resources. These included the domain of external economic relations, the allocation of several scarce commodities, the taxing and spending function, and the delimitation of the domain of the open market. A rationalization had to be provided for those functions and some principles had to be found for allocating the scarce resources among contending parties. Moreover, the outcome of the economic process would be determined by the actions of myriad agents in the society. A summary description had to be provided for that outcome - a description that

³ The shifting public-private divide and the reasons for the shift have been analysed in greater detail in Bagchi (1990).

⁴ I have borrowed the particular meaning of the word "enunciation" from Michel Foucault's usage (Foucault, 1972). However, I do not claim for it the richness, complexity or contradictoriness of Foucault's meaning.

would also serve as a conditional prediction - if the agents had to act "rationally" (rather than blindly) in response to the actions of others including the policies of the government. The discourse on planning served the dual purpose of providing the desired rationalization and the needed description.

The consequence of planning, however, was not what the technicians of the Planning Commission had intended. Indeed if one takes into account either an atomistic response to the enunciation of programmes and regulation, or the strategic response of organized groups, cartels or oligopolistic firms, then only under very special circumstances could it ever be that the intention of the technicians - even had those intentions been internally consistent in the first place - would be actualized in practice.⁵ Those special circumstances would have to consist of a world which is somehow conjured up so as to provide a fixed point at which the "rational" (in fact, often highly irrational, judged by either individualistic or by socially normative criteria) expectations of all the agents converge.

The way the private agents react to various aspects of planning depends on whether they are producers or consumers, whether they are producers with substantial holdings of means of production or producers continually on the verge of bankruptcy, whether they have some control over prices or other non-price variables that they can manipulate, and so on. One area of interaction between public plans and private decisions that has received a substantial degree of attention has been the arena of farm policies. The analysis has progressed from simple-minded (tracking)? of supply responses to changes in relative prices of particular products to analyses of changes in terms of trade of agricultural producers in general to differential changes in terms of trade of farmers produ-

⁵ I had distinguished between atomistic reactions and strategic interactions in the context of government planning in a mixed economy in an early paper (Bagchi, 1960). I explored some issues relating to strategic responses to tariff policy, protection, etc. in two other papers (Bagchi, 1964; 1966). But while I would claim some descriptive realism for the situation portrayed, I would not claim that any result were rigorously proved in these papers.

cing surplus and those who are only in the farm business because the alternative is sinking into the mass of the proletariat. That is, willynilly the class composition of the rural population has entered into the discourse of political economy. Such a discourse had been further complicated by the recognition that different groups of farmers are differentially situated to act as organized farm lobbies, that farm lobbies are not always - in terms of class positions and family and clan connections - discretely separable from lobbies of traders, transporters and industrial entrepreneurs poised to be-straddle both town and country with their class interests. The straight lines of the discourse have been broken off by the further recognition that nonetheless from time to time the interests of urban consumers have to be reckoned as being in conflict with the interests of producers of foodgrains, and that global changes in terms of trade of primary products and manufactured goods can overwhelm domestic designs aimed at placating farm lobbies.

I have cited these examples only to indicate that the world away from the corridors of the Planning Commission has always been pitted with conflicts raging around the passive and the strategic responses to general poling directives and to enunciations of particular kinds of government policy. But my purpose is not just to indicate how complicated the discourse has always been, or to indicate how long and how labyrinthine the road has been, say, from Raj Krishna's study of supply responses of Indian farmers, to Ashok Mitra's class-based analysis of the probable causes and consequences of changes in terms of trade or agriculture and industry, to Prabhat Patnaik's search for credible models of inflation and consequential income dispersion and to the elaboration of numerous models of dynamic disequilibrium for understanding the behaviour of farm prices and the effects of farm policies in Indian agriculture (Krishna, 1963; Mitra 1968; Patnaik 1988 and Rakshit 1989). The discourse of planning or economic policy-making has become entangled with wider political discourse of workers' and peasants' movements just as the latter has motivated discourses of political economy.

The discussions among the elite or their attempt to contain resistance within society have not, of course, remained bonded by the domain of economic policy and property relations in a narrow sense. They have often taken the form of discussions about the power of the central government as against that of regional governments, the language policy of the Union of India, the role of traditional precepts and precedents in the formulation of law and the enunciation of legal discourse (Baxi 1986; Dhawan 1989 and Sudarshan 1983). In a democratic society with contending parties, some of the differences have been marked off to define party positions. This applies to regional parties, organizations and parties which claim to be spokesmen of farmers as well as to parties whose class bases and related ideologies are professedly different from those of the Congress, Congress (I) or other dominant national parties.

The ideology of central planning required for its implementation a society and an effective legal framework in which claims of religion, ethnic, linguistic or caste identity would be subordinated to those of legal equality, national citizenship and secularization of public life. Such expectations were in fact belied on the ground: the struggle for equality often took the form of a struggle to be more equal than others. Affirmative action was often interpreted as nominal or ascriptive rather than real discrimination. Landlords appropriated cheap loans which were nominally granted to marginal or small farmers. The protection of minority rights often meant the right given to the privileged few to exploit the oppressed majority within a group that was corralled off as a minority interest.

Planners often saw these problems as only defects of implementation rather than as integral, constitutional birth-marks of a society in which landlords, usurious moneylenders, privileged bureaucrats, and policemen thriving on criminality remained in control of change. Planners also failed to see that in the world dominated by international capitalism, collaborationist landlordism and mercanti-

lism remained an enemy of the national self-reliance they were seeking to build in.⁶

It is possible to go on from here and to detail the various particularistic challenges that centralized planning has faced, the peoples' protests that *haute administrateur* social engineering has encountered, and the numerous ways in which the instruments of regulation have been utilised to defeat the public or social aims of regulation. I have explored some of those issues elsewhere (Bagchi 1984) and other social scientists have analysed these aspects for a number of years. The contradictions created by class division, by pressure groups operating in the name of "backward castes", particular communities, "farmers", "small industries", "backward regions", have all come in for analysis and criticism. The *Approach to the Eight Five Year Plan* (1990) has managed to incorporate the rhetoric of many of the pressure groups, and this has endowed it with an air of inconsistency. But perhaps that is better than sweeping all the contradictions under the carpet and presenting a bland image of political wisdom and bureaucratic competence. The rhetoric and the reality are all the time intertwined, since as we have suggested, the rhetoric influences the action of various groups and performs as a signalling device for triggering certain types of actions which often act at cross purposes with the stated intentions of government policies. However, one has still to ask, are there any conditions under which the rhetoric and the reality could ever mesh and produce an outcome which in some sense will be an improvement for most of the people most of the time? One such scenario could be that of democratic socialism. Writing the script for that scenario is, however, at the moment a very difficult task to undertake. Since so many similar sounding scripts are being drawn up and jettisoned all over the world, we need to reflect long and reassess much of the received wisdom before venturing on even a tentative formulation.

⁶ Sukhamoy Chakravarty's last book (Chakravarty 1987) will remain as a tragic testament of the faith and vision of a planner who refused to be daunted by the multiple obstacles that vision encountered.

The other alternative is to explore the different facets of capitalism and figure out whether something like viable capitalism can be conjured up in the Indian setting. Viability in this context requires the assurance of a reasonably stable growth with the prospect of bringing down the proportion of unemployed people and improving the standard of living of most of the people on a sustained basis. Such viability will still not mean that we will have "capitalism with a human face", because most people will still be subjected to exploitation and insecurity and will have to earn their bread with the sweat of their brow under orders of a handful of owners and managers. But at least the size of their bread basket will grow larger over time, their standard of education will go up steadily and their expectation of life will move up to the range of 65-75 years. We will also require that they live under a working democracy where people can change their rulers through a system of universal adult suffrage. Universal adult suffrage and a multi-party system are not sufficient but are necessary conditions for the operation of a democracy. Socialism has to be accepted culturally, politically and socially before it can strike permanent roots in a society: otherwise it will undergo the fate that has overtaken it in most countries of Eastern Europe.

3. Economic nationalism and capitalism in a single country.

The acceptance and eventual viability of socialist values will require a long preparation in any country. India starts with one major advantage and some serious disadvantages in this respect. The major advantage is that formal democratic institutions have survived in this country in the forty-plus years since independence, despite many assaults on such institutions by vested interests, and by sectarian and communal political movements. Any contemplated change has to work towards deepening the foundations of such institutions rather than overturning them in search of an instant realization of a millenarian vision.

The major disadvantages consist in the survival and growth of many precapitalistic institutions, colonial cultural values, the symbiotic coexistence of highly exploitative capitalist modes of surplus appropriation, and the prevalence of high degrees of poverty, illiteracy and non-market modes of exercise of power by private persons and institutions. Under the circumstances, a legitimate fear may arise whether it is at all possible to eradicate the exercise of non-market modes of power without a violent overthrow of all existing institutions. However, movements claiming to arrogate to themselves the right to exercise violence within the framework of a formally democratic but well-armed state apparatus are either doomed to failure or tend to produce their own pathologies which defeat the very purposes for which such movements were launched. Hence I would not like to elaborate on the possibility of such alternative choices in this paper. Instead, we can ask whether there are not certain major commonalities between the foundation of a socialist society and those of a less overtly polluted or criminal capitalist order. On the basis of the experience of advanced capitalist countries in the phase of development in which social welfare programmes provided both the base of an expanding home market and a growing productivity of labour, I would claim that such commonalities can be discerned between the foundations of, shall we say, a welfare oriented capitalist state and those of a democratically governed socialist state.

There are at least three major similarities between the foundational structures of the two societies which need stressing in the Indian context. The first is the total abolition of landlordism. By landlordism I mean a state of affairs under which owners or controllers of land can exercise non-market power over the people who live or labour on that land or derive their livelihood from labour connected with the produce of the land. This non-market power of landlordism could take the form of use of private armies, or a privileged use of local government and social institutions, or a privileged and largely illegal access to the use of the state apparatus in their own interests. (In many parts of Africa, where the state apparently reserves the right to allocate the land as it pleases, it is the

ruling oligarchy controlling the state apparatus who effectively become the landlords though formally they may not be the owners of the land).

The second major foundational similarity between welfare oriented capitalism and democratic socialism would be the abolition of illiteracy and the empowerment of all human beings through access to one of the major instruments invented by *homo sapiens* for controlling the environment and accumulating the skills for such control over generations.

The third similarity in the same genre I would stress is the eradication of the kind of insecurity that is bred among people through the continual threat of starvation. Eradication of poverty in a country like India may take time. But eradication of desperate insecurity need not. A measure basic social insurance can be provided to everybody at a cost which is well within the means of the current budgets of the central and state governments. The continual threat of starvation not only saps the productivity of human beings. It also makes them prey to the illegal exercise of power by the privileged strata and thus undermines the foundations of a democracy, let alone an egalitarian order (Chandra 1988; Prasad 1989; Mohanty 1989).

However, the question may be raised as to whether during the period that the foundations for a welfare-oriented capitalist state are being laid that capitalism can be at all viable. We can appeal to history, and point out that in major capitalist countries, the foundation of a capitalist order was laid by a national effort, however much the timing and the nature of that effort was conditioned by the developments of international capitalism.

Capitalist relations began to develop in many countries of Europe in the later Middle Age and especially in the aftermath of the plague epidemics of the fourteenth century. But it was by no means a story of uninterrupted progress or development. Capitalist social relations received a setback in most of the Italian city states

when they come under the direct or indirect domination of either the Holy Roman Empire, the Papal State or the Spanish empire. Within Spain herself incipient Catalonian capitalism was overwhelmed by the rule of the Casilian grandees.⁸ It took a series of revolutions in England from the sixteenth century down to the eighteenth century for capitalist relations to be firmly established on the ground under the supervision of a group of triumphant profit-oriented landlords, merchants, and later on, industrialists. Adam Smith may have preached *laissez-faire* in 1776, but England pursued nationalist economic policies down to the 1840s when free trade was introduced in the interest of the manufacturers and wage earners and that interests was firmly based on a global supremacy in manufacturing, trade and finance.

The story of the spread of capitalism in the other countries of western Europe and in North America cannot be told only as a kind of passive adaptation of capitalist institution borrowed from England. In France, Germany or the USA, or even the small Scandinavian countries, it was a story of political revolutions leading to the eventual victory of interests championing the cause of capitalism, revolutions which were often reversed in the short run only to break out a fresh in the setting of a new national and international conjuncture. The champions of capitalism generally fashioned the new institutions in accordance with their perception of their national interests. It was only in rare circumstances that those interests were seen to coincide with those of the dominant country of the epoch, viz., Britain. It can be argued that the ruling classes of the major groups of nominally independent countries in the countries, viz. the Latin American countries, which embraced a free trade policy, condemned their own countries to industrial backwardness through that very act. Of course, there were other policies that sustained the social basis of that "voluntary colonialism" such as the shoring up and strengthening of landlordism, an ideology that

⁸ I had argued about this possibility of underdevelopment within western Europe in 1971 (Bagchi 1970). Further historical evidence, see the references in that paper and in Anderson (1974) pp. 60-84 and McNeill (1983) chapters 3-6.

also included elements of racism, and the resultant condemnation of most citizens to a life of helotry (Bagchi 1982, chapter 3; Bagchi 1987a and 1987b).

The growth of capitalism in Japan since the late nineteenth century and in the four dragons of East Asia since the end of the second World War indicates that the origin of a capitalist system can be regarded as at least a bipolar affair. No simple theory of diffusion will account for the set of policies adopted by the Japanese ruling class the latter sought to introduce western applied science and technology while resisting the liberal values of free trade, freedom of expression and democracy. A very similar rejection characterizes the policies adopted by Singapore, South Korea and Taiwan. The success of the latter two regions and the quickening of Japanese industrialization after the second World War - the so-called "trend acceleration" talked about by Kazushi Ohkawa, Henry Rosovsky and other students of Japanese economic growth (Ohkawa and Rosovsky 1973; Kaneda 1989) - owes also a great deal to thorough-going propeasant land reforms and the consequent abolition of landlordism as a political and economic force.

If the "really existing socialism" in eastern Europe collapses and yields to market economics then it is very likely that the origin of capitalism will be seen to be a multipolar affair. Such countries will start with several enormous advantages in comparison with most of the less developed countries (LDCs). Landlordism has been destroyed in those countries, literacy rates are high, there is a pool of highly skilled scientists, technologists and industrial workers, and the occupational structure has changed in most countries so that industry employs more people than agriculture. It is not easy to predict whether these advantages will be swamped by irredentist ethnic and communal conflicts or will ultimately triumph over the latter. But if the latter possibility is realized, it will be yet another nail in the coffin of a passively diffusionist theory of spread of capitalism.

This brief and admittedly cursory glance at history is necessary because an ideology seems to be becoming dominant which says either that no national effort at economic development can succeed in an era of transnational capital, or that if there is any hope for economic development it can happen only by blindly following the dictates of transnational capital. Some new work on theories of international trade and economic growth - work that overthrows the traditional verities of pure competition and free trade - is being adduced in support of this very old ideology. The history of capitalism shows precisely that a country or region that passively adapts to the dictates of the dominant fraction of international or transnational capital generally finds itself condemned to underdevelopment. A new theory has to account for this signal fact. If it does not, we should be very careful before we accept it as a basis of discourse for planning, development or political action. Moreover, I will argue in the last part of this section that these new theories strengthen the case for a nationally or a regionally oriented economic policy and for the operation of a semi-open system with regard to the international economic flows rather than for the kind of *laissez faire* policies espoused by the World Bank-IMF lobby.

As of now, the OECD and more narrowly, the European Economic Community, can be regarded as a block of countries between which capital and trade flows face few barriers. Moreover, the direction of these flows can change, from time to time, depending on exchange rate differentials, differential in productivity growth and so on. The contrast we need to emphasize is with the vast majority of the LDCs which have historically received little net inflows of capital from the advanced market economies for any sustained period of time. Japan and the USA are also joined together by massive trade and financial flows, Japanese and German surpluses being used to finance the huge US budget and trade deficits. The ease of commercial and financial transactions is, however, rarely matched by a similar degree of labour mobility - except within the European Community strictly defined. The ideology of free trade, of course, never embraces the freedom of migration of labour from

the LDCs to the advanced market economics. In the following discussion we shall take these stylized facts to be given.

For those private enterprise economies which are not already conjoined to the advanced market economies through a system of free mobility of capital, goods and labour, the usual fate is that of sluggish growth periodically interrupted by short-lived booms, caused usually by external factors such as a rise in primary commodity prices, or longer-lasting recessions caused both by internal and external factors. In the 1980s, recessions have become longer and deeper for those countries which are already caught in the debt trap, and have painfully to adjust their economies and societies to the requirements of repayment of debt contracted at usurious rates of interest.⁹ The four dragons of East Asia have not only managed to sustain a high rate of growth of national income since about the middle of the 1960s. Unlike the countries of Latin America their growth has not been interrupted or turned into long period stagnation. In fact, it may also be claimed that the four dragons have experienced a "trend acceleration" in GNP growth since the 1970s. The general conditions for such "trend acceleration" have not been fully investigated. The intensification of intercapitalist competition, the loosening of the constraint on growth posed by landlordism and the facilitation of technology absorption through appropriate policies promoting worker literacy and continuous growth have all contributed to this acceleration. One consequence has been that we can no longer take, following Arthur Lewis, any rate of national saving exceeding 5 per cent as adequate for sustaining a positive rate of economic growth in the long run. A principal requirement for accelerating the rate of growth of most of the economically successful economies of East Asia has been raising the rate of investment to a figure of at least 25 per cent of national in-

⁹ It is an irony of history that legal rates of interest were subject to a ceiling of 12 per cent in "the first industrial nation" (England) during the phase of its graduation to industrial capitalism. The effective rates of interest for the external debt contracted by most third world countries (after taking into account the fact that debts are denominated in hard currencies whereas their own currencies have undergone drastic rates of devaluation) generally exceed 20 per cent per annum.

come over a sustained period of time. The figures in Table 1 indicate the recent rates of investment in some major countries of Asia.

Table 1.: Gross investment as a percentage of GNP in selected Asian countries 1987-1989.

Year	Ban- gladesh	India	China	Hong Kong	Rep. of Korea	Singa- pore	Taipei China
1987	13.8	22.1	37.2	26.9	29.1	39.1	20.5 (39.9)
1988	12.8	22.6	37.6	28.0	29.8	36.6	23.3 (36.9)
1989	11.6	23.1	37.0	27.1	34.6	38.3	23.4 (33.3)

Source: Asian Development Bank: *Asian Development Outlook, 1990*, Manila, 1990.

Note: Figures within brackets are gross national savings as percentage of GNP.

In the above table, Taiwan (Taipei, China) is the only region in East Asia with a rate of investment less than 25 per cent. But Taiwan had already emerged in the early 1980s as a net exporter of capital. The rates of gross national saving of Taiwan, as the figures indicate, were far higher than 25 per cent. A high rate of investment and saving is by now means of a sufficient condition for sustained economic development. But it is possible to argue that if the other conditions for raising the rate of growth cannot be satisfied then the 25 per cent figure also cannot be sustained over a long period. Thus this figure should not be seen simply as a multiplicand of the incremental-capital ratio, but also as a magnitude which reflects the influence of a host of other factors affecting economic growth.

The rate of gross investment over the long period reflects the propensity to invest of the business community, and that in its turn very much depends on what Keynes called "long-term expecta-

tion" (Keynes, 1936, pp. 46-47). The only concrete factor affecting the state of long-period expectation Keynes referred to was the long-term monetary policy. Following Keynes again, Joan Robinson used the phrase "animal spirits" to characterize the vigorousness of investment and competition within an economy, but did not try further to pinpoint their approximate determinants. Nicholas Kaldor came closest to analysing the determinants of long-term investment in a capitalist economy, and his insights into the role of static and dynamic economics of scale, product differentiation and competition as between producers with a certain degree of command on their business environment (such as location) and business parameters (such as advertising, price and product differentiation) are yet to be fully developed.¹⁰ However, his attempt to put his insights into formal (and sometimes mutually inconsistent) models, and his preoccupation with the characteristics of a nature capitalist economy that Britain tend to render his analysis of use only at a second remove for our purposes.

I will instead try to develop my analysis along a different path.¹¹ I assume that in the particular country we are concerned with, there is a distinct group of capitalists who make a living (and derive power) by investing their funds in productive enterprises which yield their revenues over a long period of time (say ten years). Profit-maximizing capitalists would be expected to invest their funds wherever their returns are highest. Moreover, assuming that the returns on productive investment increase sufficiently to more than compensate for any fall in consumption in the near future, the *ex ante* propensity to invest of individual capitalists should rise. However, it is more realistic to assume that the proportion of investment to GNP would rise if the share of investors (as against

¹⁰ For attempt to develop some of the Kaldorian arguments see Eaton and Lipsey (1978, 1979 and 1989), and also Romer (1986).

¹¹ The contours of this analysis emerged out of several previous efforts of mine: Bagchi (1982, chapter 5); "Problems of effective demand and contradictions of planning in India", in Bagchi (1988); and Bagchi (1989a).

those of rentiers or wage-earners) rises in national income, without encountering any problems of shortage of demand, or in Marxian terminology, any realization crises. This would in turn happen if investment rises strongly enough and is spread across the economy in such a manner as to more than make up for any loss of markets because of the relative (or even absolute) contraction of purchasing power of rentiers and the proletariat.

Post-Keynesian or post-Kaleckian economic theory elaborates many of the subthemes or trace out many of the complications that invalidate the simple inferences suggested by the above scenario. I will not try to sketch those particular subthemes or those complications that assume the existence of a basic two-class economy, consisting of investors (capitalists) and workers, and a closed economy at that, where it is further assumed that investors will necessarily invest their funds within the national economy. Instead I examine the plausibility of the two basic assumptions in turn, viz., that the investors will regard the national economy as their main field of investment, and secondly, that the society can be broken down into investors and workers, and all economic and political activities can be understood on that basis.

At any given moment of time, rates of return on invested money vary as between different sectors, and as between different countries. A well-informed investor, scrutinizing the horizon would then choose to invest in the sector and the country promising the highest return. If inability of capital were investigated we would observe any number of investors crossing frontiers and investing in many different parts of the globe. Especially in periods of volatile exchange rates, we would expect investors in third world countries - whether domestic firms or multinationals - to move their money to those other countries where long-term prospects of making profits are brighter. This is, in fact, what tends to happen in the large majority of third world countries today. Even apart from the charges for servicing of debt and profits remitted by multinationals, a large amount of capital flows out of the third world under various guises. But the capital flight does not take place uniformly: nor is it

responsible only to interest rate differentials, or differentials in real rates of return (after exchange rate variations are taken into account). To take some striking contrasts, Japan, South Korea and Taiwan were investing virtually every yen won or dollar earned by investors within those countries even when they were emerging from war devastation, experiencing large doses of devaluation, or still working with relatively low levels of skill compared with most countries of the Atlantic seaboard. As against that, Mexico and Argentina were sending large amounts of capital abroad even in their phases of high growth. These differences have to be related to differences in long-term expectation - expectations that are grounded in reality through government policies and business strategies. To use a much-derided term, "economic nationalism" - under which a particular territory and people are regarded by the domestic investors as peculiarly their own sphere of operation - has to inform the policies of the government of that country and guide the strategies of the business firms there. Such policies can be inward-oriented or outward-oriented, importsubstituting or export-expanding; the strategies can be both monopolistic and competitive, narrowly targeted or diversified regionally and sectorwise. But for purposes of planning and strategic behaviour the nationals of those countries should normally find it much easier to get together with one another than with foreigners, that many of the contracts and agreements can be informal or tacit rather than formal, and that foreigners would find it difficult to penetrate the *sanctum sanctorum* of businessmen's club, and council chambers of the government where domestic businessmen, politicians and bureaucrats get their act together. In the case of east Asian countries, the rules of the game were protected also by explicit barriers against the entry of foreign goods, capital and people - although in different degrees at different times. But it has been repeatedly argued that Japanese barriers against the entry of foreign goods and firms are often nontransparent and are hard to overcome even when the formal barriers have been pulled down (Bagchi, 1987a; and Van Olferen, 1990).

Effective economic nationalism and the formation of industrial bourgeoisie can be badly hampered by the pursuit of policies

aimed at achieving the dominance of an ethnic (often defined both in ethnic and religious terms) majority. This is exemplified by the case of Ottoman Turkey in its last phase and of Republican Turkey under Ataturk and his successors (Keyder, 1990). Similar pursuit of economic dominance by the ethnic or communal majority in Malaysia, Uganda and other countries of Africa and Asia (often in the name of "Socialism" or equality) has hampered the formation of the bourgeoisie in those countries. Of course, this type of political reaction has often been provoked by the attitudes and activities of an alien mercantile community. But there are states such as Switzerland which achieved a national homogeneity while abjuring any attempt to establish the supremacy of a particular linguistic or denominational community.

The consciousness of investors as belonging to a particular national space may spring from a feeling of achieved dominance, as in the case of imperial Britain, or from aspiration to realize a subjectively perceived superiority to actual dominance as in the case of Meiji Japan. When a number of countries are tied together by similarity in levels of income, education or a joint *feeling* among its upper classes of superiority to other peoples because of "civilization", superiority of religion or superiority of "race", the capital and labour mobility may be relatively easy as between those countries even if there are formal barriers against trade. This is what obviously happened in the north Atlantic seaboard in the nineteenth and twentieth centuries. Here nationalism can be transcended by a clubby or limited supranationality for the purposes of investment. This does not by any means imply that these countries do not feel threatened from time to time or even for a decade or so at a time by the unpredictability of capital movements (Nurkse, 1944; and Brown, 1987). But in the larger perspective of the growth of capitalism and its unevenness, such shifts can be treated as cyclical, or at their most dramatic turn long cycle phenomena to which adjustments can be made without slipping out of the club.

Just as feelings of racial, national and cultural superiority can power the nationalism of investors, these same barriers can hem

in other potential investors within their chosen spaces. Thus, for example, the lack of access of overseas Chinese investors or of the Indian investors up to the 1970s to the wider spaces of western Europe and the USA have been one of the factors inducing them to invest in Hong Kong, Singapore, Thailand and India. Of course, if such investors feel politically insecure (the reasons for such insecurity generally are to be sought in their own racist attitudes and the political discrimination practised by host governments), their investment record will be correspondingly flawed. The most paradoxical effect of the inability of potential investors to define a national space for themselves may perhaps be found in certain countries of Latin America such as Argentina and Mexico; the upper classes of these countries have behaved like exiled Europeans or potential US citizens and have accordingly wanted their investments to pay off within short time periods. The track record of most sections of the upper classes of Latin America being what it is, they also had objective reasons to fear the repercussions of the repression they had practised.

If the investors are unable, for social, cultural and political reasons, to take their own country as their space for investment, then, naturally, the prospects of growth along capitalist lines grow dim. Several consequences would follow from a low rate of investment in the national economy. First, since in the era of international demonstration effects of various kinds, intended imports would increase and since a corresponding growth of exports especially of manufacture, cannot take place without a healthy dose of investment powering it, the balance of payments would deteriorate. The country is very likely then to be strapped in an exchange-constrained regime (Thus, in fact, the saving-constrained growth and trade-constrained growth would be indistinguishable). This in turn would produce stop-go cycles and create further instability in expected returns (Bagchi, 1982, chapter 5). Secondly, a low-growth, low-investment economy almost always starts with local or sectoral monopolies with considerable influence on trade flows and prices. When the economy is poised for investment in industry, these monopoly groups would try to extend their control over new fields, and there

would be a proliferation of monopolistic control and restrictive practices in newer industries also. Thirdly, in industries which are characterized by strong economies of scale, monopolistic power would allow existing industrialists to reap high profits with plants which are below their optimum capacities, meaning that they have associated costs that are higher than for best-practice plants that are bigger in scale. It has been shown that with uncertainty about product demands, the size of plants that an incumbent monopolist has to operate in order to deter entry of intending raiders can be smaller than in the case of certainty in product markets (Perrakis and Warskett, 1986). A low-growth economy subject to stop-go cycles will be subjected to a high degree of uncertainty of demand, especially for capital and intermediate products, and is therefore, likely to help entrench this kind of pre-emptive investment behaviour. Fourthly, with current rates of population growth in most underdeveloped countries, sluggish investment and sluggish capacity creation are likely to be associated with low rates of employment growth, and problems of shortage of effective demand will become endemic in the economy, because of a high incidence of poverty among the people (and the low rate of investment). Fifthly, a sluggish "animal spirits" will also be reflected in low motivation to absorb imported technology, let alone innovate, and to expand markets abroad with aggressive marketing and financial strategies. Dependence on foreigners for bridging the balance of payments gap and for supply (or rather leasing) of technology will in any case restrict the freedom of choice of the domestic investors and policymakers in these areas. Sixthly, in an economy of endemic poverty and shortages, speculative behaviour on the part of traders and investors will become self-justifying.

Let us now look at the consequences of dropping the assumption that the national economy we are looking at only contains a group of investors and a group of proletarians. In particular, let us assume that the underdeveloped country also contains a class of landlords who exercise local non-market power, and who can have influence on the policy-making apparatus of the government. The existence of such a class would mean that power would often be

exercised for purposes other than making monetary gains, and that the source of a larger amount of power need not to be a larger volume of wealth or command over means of production. The non-market power of landlords would be extended over agricultural labourers, small farmers, and the local machinery for enforcing law and order. The landlords might tighten their hold over the poorer people by engaging in usurious moneylending themselves; or moneylending might be carried out by a separate group of people who would, however, normally be subordinate to, or in alliance with, the landlords.

Under these circumstances, the potential investors and their allies have to reckon with the intentions and political power of the landlords. How that political power would be exercised as far as the economic policy of the state vis-a-vis the rest of the world is concerned would depend on the kind of political and economic position the country concerned occupies. When the country is still relatively insulated from the rest of the world, it is conceivable that many landlords would act in a patriotic or at least xenophobic fashion. This is what happened in China before the 1911 revolution when landlords opposed the plans of the invading imperialist forces and the comprador businessmen. However, if the country is already penetrated by foreign capitalists and the national capitalists have failed to come out with an effective strategy of industrialization, then landlords would be in alliance with foreign capitalists and those domestic capitalists who have survived in alliance with foreign capitalists or have managed to create niches for themselves in a regime of free trade. This is roughly the situation which prevailed in most Latin American countries up to the depression of the 1930s. Finally, we have a situation that is observed in most underdeveloped countries today: the landlords control agriculture and power in the countryside; some of them have moved into trade, transport and industry; the landlords and domestic capitalists operate the state in collaboration, and in periodic conflict, with multinationals and internationalized domestic capital.

Under none of these scenarios are land reforms and abolition of the non-market power of the landlords serious agenda items for the government. Popular resistance and struggle can, of course, force the government to concede some types of land reforms but they remain ineffectual or marginal so long as the landlord-capitalist domination in the states endures (cf.. the recent experience in the Philippines). The persistence of degrading poverty, illiteracy and use of non-market power for structuring hierarchical relations impede investment decisions and depress the returns on investment, except where it can be guarded by monopolistic barriers. The problems that we instanced in the case of lack of effective economic nationalism on the part of investors become compounded several-fold by the persistence of landlordism. In multi-ethnic or multi-religious societies, culturally, landlordism tends to promote revivalism, inventions of tradition, and so on which fragment the vision of a unified society and investors cannot effectively anchor their investment to a unifocal perspective.

In India and in most other LDCs, the persistence of landlordism and the failure to develop an effective investment-oriented economic nationalism have led to sluggish growth, repeated foreign exchange crises, inordinately delayed processes of absorption of technology, low rates of productivity growth and a high degree of incidence of poverty and unemployment. Some analysts and policy-makers associated with the World Bank, IMF, transnational banks and US and other OECD governments have used these failures as the ground for advocating free trade in commodities and technology, but not men. In actual fact, free trade in technology has always been restricted officially and unofficially by restrictions placed in the name of protection of strategic secrets, patents or other interests of the owners of advanced technology. In recent times, the onslaught of OECD governments has taken the form of a demand for unilateral imposition of US laws (such as Super 301) and practices irrespective of the laws, objectives and interests of other countries. Other theoretical analyses had demonstrated the hollowness of the discourse of internationalism in economic policy in a world divided into rich and dominant countries and poor or economically

and technologically dominated countries, especially where the dominant countries restrict the mobility of labour and practise various kinds of protectionism in defence of their industries threatened by competition from other countries. Recently, new theories of international trade have been evolved which recognize the key role of economies of scale, learning by doing and of strategic behaviour in international trade (Dixit and Kyle, 1985; Krugman and Helpman, 1985; Krugman and Helpman, 1989).

4. New theories of international trade, learning by doing and strategies of self-reliance.

The ideology of free trade was long powered by a static theory of comparative costs or comparative advantage which few people really believed in. The attraction of the theory was its great simplicity and its ability to rationalize a state of affairs that was originally brought about through differential relations of power in international affairs but that seemed to fit the colonial-style trade flows that characterized the domination exercised by industrialized economies over the global economy.

Apart from Marxists and liberal theorists of imperialism, there were others such as Alexander Hamilton, Friedrich List and Mihail Manoilesc who had treated the free trade argument as a special case and the case for government intervention in international trade as generally valid for most countries other than the global leaders of manufactures and trade. However, most of the arguments of such dissidents were dismissed by mainstream theorists as special pleading, and in most textbooks and journal articles the theory of static comparative advantage held sway and came nearest to the position of a piece of empty ideology masquerading as economic theory.

The theory proved increasingly inappropriate for explaining the major flows of world trade. In today's world trade in manufactures and trade between the advanced market economies accounts for the major part of international commerce. The trade patterns in manufactures could not be explained by appealing to comparative advan-

tage. There were too many different types of goods produced and traded also increased at a fast rate, and finally, their prices were obviously determined by decisions of price-setting firms. The characteristics had already induced theorists such as Allyn Young, Nicholas Kaldor, S. B. Linder, Michael Posner and Raymond Vernon to postulate the prevalence of economics of scale, continual product differentiation, the advance of technical knowledge as a normal product of deliberate R & D expenditures increases in productivity through learning by doing, and regular changes in patterns of consumption brought about by transition of advanced market economies to a state affluence. Such regular departures from the conditions of pure competition beloved of protagonists of static comparative advantage have also induced mainstream theorists to construct models incorporating strategic behaviour on the part of producing and trading firms and of governments formulating economic policies.

Much of this work is still confined to professional journals and surveys meant for fellow professionals (e.g. Jones and Kenen, 1984, 1985; Schmalensee and Willig, 1989). But attempts are already afoot to gloss over those implications of this work which are disturbing from the point of view of the World Bank-IMF lobby and their associates in top policy-making positions in the less developed countries including India. For example, in a recent semi-popular survey article pointing out that there is considerable empirical support for the new theory of international trade, Helpman (1989, p. 213) writes:

"Proper evaluation of outcomes (of policy - AKB.) requires detailed information about conduct, market structure, entry constraints, intersectoral links, and the like; we need more empirical studies designed to reveal this information.....since (a) the information needed for a successful policy design is not available; (b) the policy recommendations are very sensitive to the information; and (c) the "calibration" studies indicate that good policies improve welfare only slightly; free trade remains a good rule of thumb....

Let this caution not be enough another mainstream trade theorist. Srinivasan (1989, p. 217) proceeds to warn the unwary who might be inclined to support "an inward-oriented development strategy" because of the solace the new theory seems to provide for it. He proceeds then to place "the inward-oriented-based theory in the perspective of traditional trade theory; to emphasize the extreme fragility of its conclusions and their lack of robustness...."

Reading Srinivasan's warning, I was continually reminded of the opening of Galbraith's (1952) *American Capitalism* where he discusses why the tumble-bee should be an insecure insect and how provoking it must be to an *afficianado* of the then prevalent theory of serodynamics that it was not. In defiance of the latter the tumble-bee continued to fly and to thrive. Srinivasan lumps practically everything that goes in the name of development or planning as inward-oriented strategy, and then shows how theoretically and econometrically fragile such efforts must be, and refuses even to raise the question as to how all these countries ranging from the USA to Japan successfully practised these arts of development in different phases of their history.

At the risk of being considered facile or superficial then let me pick out some of the strands of the package of theories emphasizing economies of scale, imperfect competition, strategic behaviour, learning by doing, and idiosyncratic product and process development. I will emphasize those aspects of the theories which incorporate decisions to invest in fixed capital, human beings, market development or any decisions which take some time to implement and whose effects also are felt over a relatively long period, say, 1-5 years.

First, suppose there is an industry which is characterized by economies of scale that are not exhausted with the size of a particular economy (say, Country A). It is also assumed that there are other firms in the world economy which are already exploiting the economies of scale fully. If the government of A does not offer some protection against external competition, then no investment

will occur in that industry in that country. For, at the prevailing world prices, taking into account the risk of the investment not being as profitable *ex post* as it appeared *ex ante*, the potential investor's expected rate of return will be less than the prevailing rate of return in the economy (for in the fully riskless situation, the investor can just about recover costs including the cost of capital). The government may decide to offer protection or a subsidy to a potential investor: the latter may then be required to start exporting abroad as a test of the efficiency of investment. Of course, with growth of the internal market, the investing firm may find it possible to sell a large fraction of its output at home. In this sequence it is difficult to separate out inward - and outward-directed strategies. But what comes out is a case for public intervention in support of domestic investment (of Graham, 1924; Ethier, 1982).

The case for protection against external competition need not be dependent only on the existence of static economies of scale. One situation in which the government may offer tariff protection is when there is a potential for development of a particular industry so that it would eventually be internationally competitive but which is not being developed because foreign competition - often of a predatory and pre-emptive nature - prevails in the domestic market. An import tariff or quota restriction may then induce investors to invest in the industry: the investment response may be so vigorous that the capacity of the industry soon exceeds the size of the domestic market and the price of the commodity comes down to international levels or goes down even further. Such a policy may be especially justified when investment is expected to come out of potential savings of the upper classes and instead of crowding out other, more socially profitable investment, pushes up effective demand and reduces unemployment. The raising of the import tariff on sugar by the Indian government had such an effect in the 1930s (Bagchi, 1963, chapter 2), although that was hardly the intention behind the step taken.

In yet other situations only some kind of public support or co-operative action can stimulate the development of an industry, and

allows even a country trying to install the particular technology for the first time to reap the full benefits or the transfer. The industrial advances made by Japan since the second World War are dotted with examples where she managed to imitate and then improve the technology. This goes for the Linz-Donawitz process for the making of steel (Lynn, 1984), and for the use of the semiconductor for the making of radio sets and other electronic equipment (Morita, Reingold and Shimomura, 1986) - successes which allowed Japan to assume leadership in those sectors from the 1960s onward. There is an assumption in most of the conventional theory of international technology transfer that when an economically more backward country or a lower-wage country imports sophisticated technology from an advanced economy it has to follow the specification prevailing in the latter. Again, there are numerous examples on the contrary. A case in point is that of the adaptation of a component of a Cummins diesel engine by Tsuzuki, a small Japanese firm. The latter succeeded in producing it in small quantities but with a quality that was comparable with that of the US firm. "The task was accomplished by substituting 22 labour intensive processing stages for an automated transfer line" (Odaka, Ono and Adachi, 1988, p. 13).

Japanese success in importing technology and improving it and then beating the original developers in international competition has been replicated by other East Asian countries. As late as 1984, two major books on the semiconductor industry, one concerned with the general contours of development of the technology (Dosi, 1984) and the other devoted to the nature of competition between the USA and Japan (Okimo, Sugano and Weinstein, 1984), the two global leaders of the industry, did not even mention South Korea and Taiwan. By 1987, both these regions were emerging as challengers of the two global leaders (Saghafi and Davidson, 1990). Unlike in the oasis of more assemblers of semiconductors such as Malaysia, Philippines and Mexico, South Korea followed by Taiwan had started full-time production of semiconductor chips, which were competitive in the international market. The strategies followed by South Korea and Taiwan were different, the former depending on conglomerates for commercializing production, the latter developing a joint-venture

company, with the government as the chief shareholder for producing semiconductor chips and supplying private sector companies. But the success of both these regions has again shown how quickly patterns of comparative advantage even in trade in sophisticated manufactures can change.

Even though the governments of South Korea and Taiwan have pursued very similar strategies with respect to the import of foreign technology, the development of indigenous capability, the simultaneous or phased exploitation of domestic and export markets, there are also some major differences with regard to the structure of control of private industry. On the whole, Taiwan's industrial plants have been more regionally dispersed than those of South Korea. Moreover, the South Korean government has actively aided the growth of huge conglomerates (the *Chaebol*), whereas Taiwan has relied far more on medium and small-sized firms. These differences have also been reflected in the different patterns of development of the electronics industry in the two regions (Mody, 1990). The cases of Japan, South Korea and Taiwan illustrate that in suitable socioeconomic settings and appropriate government and business strategies, even latecomers can make rapid advances in technology absorption and quickly overtake some of their erstwhile mentors. On the other side, the general impression often conveyed in many parables of the growth of modern industry and international trade that the pioneers of the industrial revolution in western Europe were model playgrounds of competitive games and development or absorption of technologies is also highly misleading. For example, Britain had highly imperfect capital and labour markets throughout the late eighteenth and most of the nineteenth century (Kennedy, 1987; Williamson, 1989). The upper classes of Britain also displayed an enormous amount of "rent-seeking behaviour" much derived in recent literature, besides, of course, deriving an enormous amount of rent from land during the whole period of her transition to an industrialized economy (Rubinstein, 1983). To cap it all, all through the great age of technical invention, British businessmen made heavy weather of absorbing the silk-spinning and silk-weaving technologies originally imported from Italy (Jones, 1987).

Economists for a long time sought their analogies in classical mechanics and modelled their notions of equilibrium on those of the physicists. In this world, markets performed perfectly, and wondrously rational individuals ("rational fools" in the apt characterization of Sen, 1977) adapted instantaneously to any change in the state of the world. The introduction of notions of "bounded rationality" (Simon, 1982), of behaviour in the presence of risk and uncertainty (Diamond and Rothschild, 1978), or of strategic behaviour has not made a major dent in the main stream economists' vision of an economy consisting of neurotically rational individuals operating in a social void. If we have to properly absorb the facts of human experience as captured in economic decisions and outcomes and draw lessons for behaviour aimed at creating better societies, we should turn to the philosophy of natural history rather than of classical mechanics for a guide to modes of reasoning. Students of evolution have found that nature has thrown up many different types of organisms which are wonderfully adapted to their different environments. They have also found that similar organisms starting with apparently similar environments, have ended up with very different types of adaptation, and variations in some conditions during the course of evolution have led to very different outcomes in terms of modes of genetic organisation of individuals and their behaviour in a group (for many marvellous examples, see Gould, 1977 and 1983). For example, haplodiploid organisms (those in which one of the two genders, generally the male, has an endowment of chromosomes only from one parent but the other gender has chromosomal endowments from both the parents) are much more likely to evolve tightly organized societies (such as those of bees or termites) than diploids (namely, those organisms in which members of either gender start with contributions from both the parents - as in the case of all mammals including human beings). But there are diploids who live in tightly-knit societies and there are haplodiploids who fail to evolve such societies. The varieties in the patterns of organization of human groups such as nations, nationalities or multinational states far more resemble the varieties found in nature than the uniformity beloved of mainstream trade theorists.

Of course, analogical reasoning is not a safe guide: we must know how to discard it and when. Organisms in nature evolved through many millenia: their adaptation, selection and survival was achieved through the blind working of myriads of natural forces. In cases of human organizations, we do have conscious agencies at work. Where our perspective differs from the conventional trade theorists are in treating the market as just another man-made organization and the construction of the market and adaptation of human institutions as conscious acts of states, firms and particular social classes in partial or complete control of the state apparatus. The experience of the development of industrial capitalism can teach us something about how to go about designing institutions and policies.

One basic set of strategies that distinguishes industrial capitalism from situations in which commerce is conducted under the dominance of feudal or other precapitalist relations is that human beings are treated as the major source of profit and power. Conscious investment in the upkeep of human beings in the shape first of poor and laws and then of social insurance has characterized the growth of industrial capitalism in England, France and Germany. Reproducing a reserve army of labour in order to keep the latter in line has ever been part of the *modus operandi* of capitalism. However, that reserve army has not been treated as an unlimited reservoir to be exhausted at will: control of labour has required its delimitation. Furthermore, capitalists realized the value of a better-educated labour force. Universalizing education has again been an objective pursued by all successful capitalist states. Under conditions of imperfect information about the quality of products and services, the working of market forces tends often to throw on the market only low-quality products and services (Akerlof, 1970). Universalizing education and getting the labour market segmented along lines of education and skill are ways of checking such tendencies of the market. Such strategies are pursued not because capitalists are philanthropists but because they have to compete in markets where quality sells.

Along with such universal strategies of successful industrial capitalism others grow up which are more particularistic in nature. Different societies evolve different strategies for attaining the aim of perfecting the social division of labour so as to gain and retain a competitive edge. In some cases, private enterprise and associations of private firms are the main instruments for achieving the best social division of labour. The cotton textile industry of England in the nineteenth century seems to have fitted this pattern. In other countries and other industries, such as the metallurgical and power equipment industries of Germany and the USA, the growth of large scale firms with the internalization of most production operation seems to have provided the most scope for a profitable social division of labour. In several French industrial cities in the nineteenth century, municipal or other local public bodies provided the framework for quality control, training of labour and upgradation of technologies (Piore and Sabel, 1984). In Japan, a group of conglomerate firms using large numbers of subcontractors became the focus of social division of labour. But subcontracting is not a peculiarly Japanese phenomenon. It can grow up in other contexts, such as the Lyons conurbation in France in recent times, where firms in various branches of engineering have resorted to subcontracting on a large scale (Lorenz, 1988).

The point I would like to drive at is that in designing appropriate track policies and strategies of international competition, governments, firms and technological research laboratories must cooperate so as to evolve operating principles suitable to each national setting. In socialist China, a publicly guided system of cooperation between local governments, state and collective enterprises, universities or colleges and research laboratories was the chosen instrument of development, transfer, and absorption of technology. In South Korea it is private firms contracting out research needs to state controlled laboratories and collaborating with them for adapting imported technology to local needs which became a highly efficient model of upgradation and absorption of technology (Bagchi, 1987c, chapters 3 and 4; D. Costa, 1989, chapter 4 and 5). In India, in my view, we have failed, on a national scale, to evolve a

durable system of subcontracting or technology transfer. India's international competitiveness has also suffered because of inefficient absorption and diffusion of both imported and indigenous technology. But in a world which is characterized by monopoly or oligopoly, surrender to international capital could be the worst way of choosing a strategy for improving the internal productivity and international competitiveness of largescale industry. As it is, it is the small and medium-scale firms which provide the major part of Indian exports. Any reorientation of economic policies and political strategies must take that fact into account, as it must take account of the employment-generating potential of small firms. Simple-minded owes for the sluggishness of investment in the shape of mere loosening of investment licensing regulations have not worked so far in India as the stagnation of rates of investment as a proportion of GNP during the last ten years or more testifies. Some recent theoretical work has also borne out that in the presence of monopoly and restrictive practices, simple auctioning of investment licences or import quotas are unlikely to answer (cf. Krishna, 1990; Krugman, 1989, section 3).

Our earlier discussion should make it abundantly clear that a redirection of the discourse of planning cannot be confined to the realm of industrial or commercial policies. Redesigning of some basic social arrangements must be put on the agenda if sensible industrial policies are to succeed. We have already adduced the success of several East Asian economies in the area of industrial and trade policies. We have emphasized that universalizing education and practising effective economic nationalism were necessary conditions for the success of their growth-oriented policies. The East Asian economies have also done well in two other areas. One is that of land reforms which abolished landlordism in Japan, South Korea, Taiwan and of course, China. These reforms abolished the non-market power of landlords in the countryside, released purposes of investment, the rent that had earlier been consumed by the landlords and redirected the incentive structure of businessmen towards productive investment. The drastic reduction in the proportion of the poor through positive support policies and through the growth

of incomes (Dreze and Sen, 1990) also had positive feedback effects on the productivity of the ordinary people and on the size of the internal market for industrial goods. It is important to realize that East Asian success stories are based on a whole cluster of social and political institutions, and not to be misled by the isolated trumpeting of their so-called export-oriented strategies by the IMF-World Bank lobby. It is also to be stressed that if any country is excessively dependent on foreign aid or loans from commercial banks and gets into an external debt trap, it has to say goodbye not only to policies that seek to discriminate between domestic and foreign investors but also to policies that seek to redistribute incomes or social benefits in favour of the poor. The "adjustment policies" forced on indebted nations by the IMF and the transnational banks have taken a heavy toll of the education, health and longevity of the poor in most of the countries undergoing the treatment (Cornia, Jolly and Stewart, 1987, 1988).

Although the growth of industrial capitalism (and socialism) in Europe and East Asia were poles apart, there were major similarities in the strategies pursued by those countries in order to foster economic growth and industrialization. These strategies included effective economic nationalism, abolition of landlordism, universalization of literacy and provision of some kind of social security for every citizen. The discourse of mainstream economics has ignored these specific social and political strategies and movements and thereby provided a thoroughly unreal picture of how improvements in standards of living took place. The discourse of the political economy of planning has also sometimes confined itself only to action at the level of the state or an abstract market mechanism: an enriching of that discourse by bringing in actions by classes and groups below, outside but often in tandem with or in opposition to the state has been overdue in the Indian context. (The same comment would apply to the discourse of political economy anywhere else in the world).

There is a mistaken impression - deliberately propagated by some economists and business groups - that the troubles India has

had in the shape of loss of internal or international competitiveness in large scale industry are entirely due to the pursuit of a policy of self-reliance. By a state of self-reliance achieved by a country I would mean the ability of that country to freely *choose* macro-social policies, techniques of production and management practices without having to obey the dictates of foreign firms, transnational banks or organizations such as the IMF and World Bank. A country which is continually plagued by endemic foreign exchange shortages and does not have a backer which will underwrite all such shortages (as the USA did for South Korea and Taiwan for all the years of the 1960s and 1970s) is unlikely to be able to pursue a policy of self-reliance. Hence, the Indian government was not able to pursue a policy of self-reliance for most of the period since independence - much of the official rhetoric to the contrary. But there have, of course, been fluctuations in the degree of infringement in the policy of self-reliance depending on the strength of externalization lobby.

5. Can the discourse of planning and the discourse of people's choice be united?

As I have already noted, the discourse of planning in India has been heavily implicated in the statist paradigm. On a false analogy with the post-revolutionary situation in socialist countries, the state has been seen as a virtually autonomous entity acting on a passive society - or rather a society that could be galvanized into appropriate responses as desired by the planners and policy makers. To this oversimplified paradigm has been opposed the equally simplistic paradigm of the free market - which also posits an all-powerful state, but a state which is the source of all evil and all unproductive ("rent-seeking") activities. As I have pointed out elsewhere (Bagchi, 1989b), these opposites share a basic presupposition, viz. that the state in India can be regarded as an entity which is virtually disjoint from society.

This presupposition is violated not only by the numerous devices by the dominant elements in the ruling classes to manipulate the state apparatus, and by the strategic responses evoked by state ac-

tion. It is also violated by two other major features of Indian society, viz. its permeation by various nationalities with their distinct ways of relating to the Indian state as a whole.¹² The centralist paradigm of planning has for a long time been confronted by locally-centred paradigms of planning: this has spawned a large literature on centre-state relations.

But at a deeper level, in many communities, planning initiated by political and bureaucratic structures located in the national capital, state capital and even district headquarters has been seen as an intrusion of external forces - bent on the same old goal, the exploitation of some of the most disadvantaged communities in the country.¹³ The reality and perception of such exploitation can only be mitigated (but, of course, not removed altogether so long as a system dominated by private property rights endures) by involving the local people in the planning process. Such a model of planning is being tried out in West Bengal, and the some other states. The *Approach to the Eighth Five Year Plan* issued by the Planning Commission (1990) also blesses decentralized planning. But, of course, such planning cannot be effectively implemented without breaking the power of landlords all over the countryside. There is a discourse on decentralized planning - a discourse which often claims Gandhian heritage - that attempts to sidetrack such issues of power and class, and seeks to only minimize the power of bureaucracies. But retaining old community structures with their own hierarchical means of control and involving the so-called NGOs (which are often blessed with lavish foreign funding and are rarely self-supporting) to give them new ideas for management will not convert the economic policy-making process into a democratic exercise. Moreover, communities with particularistic world-views - world-views that necessarily provide for domination over other groups or communi-

¹² For a discussion of some of the economic issues involved in the nationality question, see Alam (1985a and 1985b).

¹³ For a vivid account of some of the depredations wrought by bureaucrats serving consciously or unconsciously as tools of forest contractors and mining companies, see Anon, (1989).

ties with different world-views - will find it difficult to communicate with one another, and come to democratic solutions. The *Approach to the Eighth Five Year Plan* ensconces many of the unresolved contradictions between democratic decentralization and authoritarian community structures, between the aspiration to release market forces from fetters of regulation and non-market constraints and the refusal to put land reforms at the centre of a programme of social change, between support for cottage and small-scale industries and encouraging unfettered expansion of large-scale industrial units and between endorsement of a further move towards external liberalization and achievement of a higher degree of self-reliance in science and technology and a higher rate of employment growth. In fact, the mast-head of the *Approach* document might have appropriately read: "Let a hundred contradictions bloom!" This would not be a bad slogan if, in fact, the Planning Commission and the Government of India were prepared for the social turmoil that would result from the resolution of the contradictions through class struggle on the ground.

But let me go back to the theme of decentralised planning and promotion of production ventures geared to the use of local resources and local talents. One of the most daunting challenges against all these efforts has been the continued development of technologies which seem to generate further and further economies of scale, so that the reach of centralized enterprises seems to be ever-expanding. But in actual fact, side by side with further development of economies of scale, especially in process technologies, there is a continual differentiation of products which makes room for ever newer enterprises catering to new needs. The encouragement to smaller-scale enterprises provided by the development of electronically based information and control technologies has been widely discussed in the literature. A similar comment would apply to the catering and fast food industries, to clothing, and indeed to modes of transport where bicycles compete with sports cars as the favoured means of locomotion of the very rich. In a country as variegated and as poor as India, there are two major avenues for the development of such local product differentiation: the first is that of empowerment of the

poor by giving them a minimum income and food security, and providing them with access to land, water and other resources. This would generate purchasing power and increase productivity to match it. Secondly, the development of existing skills to provide idiosyncratic bases for many modern industries can be taken up as a specific strategy. Within modern industries, skills still often remain firm-and location specific. In India, many of the older locations of engineering industries, for example, function as pools of amazingly skilled labour. The need is to upgrade those skills and evolve a mechanism for keeping them in continual contact with changing market profiles. A nationwide proliferation of extension agencies and arrangements for linking up small input-producing firms with large finishing and marketing enterprises could be appropriate strategies in this area. But all this needs to be worked out within a framework of democratic decision-making with as unimpeded a flow of information vertically and laterally as possible.

The empowerment of local communities which have been rid of traditional power structures for planning and decision-making could also be a forward step for better environments. But historically, predatory commercialization has been a greater enemy. If local communities are given better control over their own resources and are made responsible for the consequences of their own decisions, and if they are linked up with other local communities so as to take care of the interdependencies between them, the outcome should be better than is achieved through bureaucratic planning imposed from above. In any case, in a setting of a density population in poor countries such as India, environmental planning is not sustainable, if the people refuse to cooperate with it. If, for example, pastoralists are not provided with stable sources of fodder, they will graze their cattle on hill slopes to cause deforestation, avalanches of rocks and siltation of rivers, wreaking devastation all down the valley. If inequalities that cause persistent poverty endure, then the rich will always be in a position to utilise the poor to subvert the ends of well intentioned planners. A two-way planning system based on elimination of extreme inequalities should mitigate these chances of the

opportunistic utilisation of disequilibria to subvert the ends of planning.

The etatist approach to planning sought and still seeks to impose as *ex ante* consistency on the different components of the desired outcome through a combination of fiat, regulation and market forces. There is little theorization of the market responses - strategic or otherwise - to government action and little recognition of possible reactions or even resistance on the part of the ordinary people. An interactive, decentralized, democratic mode of planning would seek to ensure *ex post* consistency by taking the people into confidence at every stage and altering the plan as it evolves and it would only try to preserve certain external fortifications through fiat and macro-economic management. This, however, must be distinguished from a mode of planning which takes existing power structures in the villages and towns to be given, and allows the market to play on the moats and inlets of these fortification. The practice of the latter mode is only likely to produce results which are already familiar in various descriptions of semi-feudal formations and processes. One lesson in terms of discourse theory is that you cannot graft a post-Enlightenment logic to pre-Enlightenment structures of power, social interaction and communication.³⁵

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³⁵ The first version of the paper was presented at the conference on "Terms of political discourse in India " held at Bhubaneswar on 21-23 September 1990. The author is greatly indebted to the organisers of the conference, Professor T.V. Sathyamurthy and Ms Valerie Atkinson, for prodding him into writing the paper and to the participants in the conference, specially to Professors Javeed Alam, Sudupta Kaviraj and T. V. Sathyamurthy for very helpful comments on the first draft. None of the persons acknowledged are responsible for any errors remaining in the paper.

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