Review Article

South Asian Developmental Crisis

by

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Like nations and civilizations, sciences also pass through period of crises when established theories are overthrown by the unpredictable behaviour of events. Economics is passing through such a crisis. The challenge thrown by the Great Depression of early 1930s took a decade before Keynes re-established the supremacy of economics. But this supremacy has again been upset by the crisis of poverty in the vast under-developed world which attained political independence after the Second World War. Poverty had always existed but never before had it been of such concern to economists as during the past twenty five years or so. Economic literature dealing with this problem has piled up but so have the agonies of poverty. No plausible and well-integrated theory of economic development or under-development has emerged so far, though brilliant advances have been made in isolated directions.

Perhaps no better evidence of this crisis can be found than the book *Economic Development in South Asia* which records the thoughts of some of the most distinguished economists of Pakistan, India, and Ceylon, brought together by the International Economic Conference at Kandy in 1969, [1]. The book contains twenty eight papers, thirteen by Pakistani economists, twelve by Indians, two by Ceylonese, and one by a non-Asian. In addition, there are fifteen records of stimulating discussions on these papers in which other economists also participated, including the ever-energetic Prof. E.A.G, Robinson who has written a lucid introduction to the book. These papers and discussions are classified into five sections, (i) constraints on development, (ii) past trends of growth, (iii) problems of internal development of India and Pakistan, (iv) problems of developing Ceylon and (v) problems of trade and external relations.

But below this neat classification there is hardly any interlinking theory of underdevelopment. Understandingly enough the conference was called to exchange ideas and experiences of South Asian economists and not for developing any theory as such. But such conferences reflect the latest thinking of experts and it is in this context that one does not find much unity of thought even as regards the fundamentals of development, so essential for overcoming the afore-mentioned crisis of economics. The participants were so much lost in the *melee* that, as observed by E.A.G. Robinson, they "even lost sight of the interest in comparing and contrasting the different experiences" (p. xiii) for which they had gathered.

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Nevertheless the book is a useful document in so far as it throws light on important economic problems which the three countries have faced since independence. It contains a fairly comprehensive survey of developments in the fields of agriculture, industry, population, foreign trade and aid. There are also a number of stimulating papers on such themes as national income, public sector, inflation, shadow prices, domestic savings, education, regional development, techniques of planning and factor intensity.

At the same time one cannot fail to notice a few important omissions. There are no papers on the economic and social implications of the so-called "Green Revolution", though this issue is referred to in the discussion. Economic social and administrative problems created by past economic strategies are ignored. There is nothing about the huge defence and war expenditures that led to the curtailment of important development projects. There are few references to the gaps between planning objectives and budgetary allocations and achievements. There is no paper on the actual planning experiences of India and Pakistan. One reason for this may have been the poor representation of the official planning and development agencies in the Conference. Incidentally, nearly half of the Pakistani participants belonged to the Pakistan Institute of Development Economics, an autonomous research body, several of whose publications before the forcible delinking of East Pakistan were noted for an exaggerated regional approach. Some of these participant members now hold key posts in Bangladesh, including Professor Nurul Islam, who, along with Professor K.N. Raj of India; had originally inspired the Conference (p.ix). A chapter exclusively devoted to an explanation of the similarities and diversities of economic problems and experiences of India and Pakistan would certainly have added to the utility of the work.

Although the Indo-Pakistan Crisis of 1971 and the delinking of East Pakistan have added more dimensions to the already complicated political, social and economic problems of South Asia, the Conference papers are still worth serious study. They have exposed weaknesses of many past policies and approaches and have identified some desirable directions in which developing economies must move for tackling the various economic problems which still remain unsolved. The quality of the papers is generally good in terms of presentation and clarity of exposition. Some of the impressive papers are theoretically very sophisticated. Most papers, however, have weak empirical basis. There is heavy reliance on official statistics which are often inadequate and designed to serve administrative needs.

Returning to the themes of the book the economic performance of the region has shown a good deal of variations and has been particularly discouraging during the recent past. The Indian economy, as analysed statistically by Ashok Rudra, remained more or less stagnant between 1950 and 1965, the acceleration of manufacturing industries being offset by a slowing down of agricultural growth. The situation did not change substantially in subsequent years, as industry faced periods of recessions and the annual rate of growth of foodgrain output (as explained by Ashok Mitra) remained as low as 0.67 per cent during the period 1960-68 in which the rate of population growth increased to 2.43 per cent (p.21). The only states of India where foodgrain production increased at a higher rate than population were Madras and Punjab. The basic reason for India's poor growth rate was that she had been using her domestic resources as well as massive foreign aid primarily to build up her industrial base in the steel, defence, and mechine-tool sectors. How for was this policy justified in terms of future economic advantages? E.A.G. Robinson thinks that it was wise for India (and unwise for Pakistan) not to have used foreign aid for making the structural alterations which would make external borrowing unnecessary (pp. 522-23). Such a policy, however, has its own political, social and economic costs. The question is how long can India bear such costs and deprive her masses of even basic food materials.

Pakistan's story is different in many respects. Taufiq M. Khan has shown that the rate of economic growth which was stagnant during 1950s rose to 5.5 per cent per annum during 1960-65 and to 5.7 per cent during 1965-68. These rates were almost twice as high as the rate of population increase. The major reasons for this satisfactory economic performance were the rapid growth of large-scale industries and the recent breakthrough in agricultural production. Unlike India where the development of the steel sector represents the major structural change in the economy, Pakistan's structural composition was affected by the growing manufacturing, construction, transport and service sectors. The brightest spot in Pakistan's development efforts was her export sector which, as pointed out by Manmohan Singh and Nurul Islam, had increased at a rapid rate ~~and~~ had shown diversification in composition as well as direction. This tendency continues even after the country's recent reverses in East Pakistan.

Despite this success there are increasingly serious problems of foreign indebtedness and regional economic imbalances. Syed Nawab Haider Naqvi found that foreign capital had financed about 40 per cent of the increase in investment since 1960 and had also encouraged domestic investment to grow at a rate of 15 per cent of G.N.P. However, in his process the economy has been saddled with a large net debt burden whose repayment may necessitate further borrowing.

Akhlaqur Rehman and Swadesh Bose have discussed the economic imbalance between East and West Pkistan. The major cause, as explained by Bose, was a "very slugghish agricultural growth" of East Pakistan. Akhlaqur Rahman's analysis goes beyond this. He points his accusing finger at a number of factors such as poor infra-structure, the economic dominance of the Hindus in the British period, transfer of liquid capital by the Hindus from East Pakistan to India at independence, the poor response of local private enterprise, inadequate public sector investment during 1950s, the attitude and behaviour of West Pakistani officials and Bihari immigrants (he does not explain how this attitude affected the situation) and the poor representation of East Pakistani executives in key government positions. The only shortcoming that he finds among the people of Muslim Bengal is a psychological one: "The Muslims of East Pakistan never had a fair opportunity of participating effectively in trade and commerce and they were, therefore, possibly afraid of the opportunity which was created by the establishment of Pakistan" (p. 83). This curious argument implies that the Bengalis refused to take advantage of an opportunity because they had never had such an opportunity before.

By the late 1950s, however, the Pakistan Government had become concerned about the growing disparity between East and West. This concern, as Akhlaqur Rehman records in his paper, led to a tremendous acceleration of public development expenditure in East Pakistan from Rs. 86 million in1955-56 to Rs. 2715 million in 1967-68 in contrast to a relatively small increase from Rs. 774 million to Rs. 1962 million during the same period in West Pakistan. Import, fiscal, monetary and other policies specially favouring East Pakistan were initiated and increased autonomy was given to the province in all spheres of development. One result of these steps was that the rate of increase in disparity between the two regions began to slow down, as admitted by Nurul Islam himself (p. 577). These equalising policies and the fact that investment allocations further increased in East Pakistan during 1970-71 belie the propoganda justifying its separation on economic grounds.

The irony of regional imbalances in South Asia is that Indian Bengal, with a relatively high rate of population growth, has also fallen behind the rest of India in terms of both industrial and agricultural activities, as revealed in Mitra's interesting paper. This perhaps explains years of political and social turmoil in this Indian State. No attempt was made in the conference to compare the economic achievements and failures of East and West Bengal, although the conference was attended by many distinguished Bengali economists from both sides. Such a study should be useful in understanding the causes of regional inbalance.

Although most papers analyse economic problems in the context of India and Pakistan, there is considerable discussion and disagreement on the general aspects of economic development. Sultan Hashmi reminded the conference, in his paper as well as in open discussion, of population pressure as a dominant constraint on development policy. But development being a complicated process cannot be frustrated by one constraint only. A variety of political, social and administrative constraints have been equally damaging. In the discussion on this paper the participants appeared quite pessimistic about checking population growth. Family planning compaigns have run into difficulties and regional and communal politics have provided a strong incentive for ballot box births. Mitra's theme that regional development within a country should follow the principle of comparative advantage rather than self-sufficiency (in food and other things) deserves attention because only in this way can the terms of trade and relative income distribution between producing and consuming provinces be kept stable. Rudra's point that parametric growth rates (showing the path of growth) can measure a country's economic performance more meaningfully than implicit rates (showing growth between two points) indicates the difficulties involved in the choice of a measure of growth.

The relative sizes, efficiency and necessity of public and private sectors are some of the haunting problems of mixed economies. The conference tackled these problems somewhat superficially. Akhlaqur Rahman traced the special role of public sector in East Pakistan and Hazari and Oza identified the various problems of public investment in India. But their studies are mainly of a survey type, conducted within the existing capitalistic institutional framework. They have also ignored the danger and implications of subordinating the public sector to the interests of private enterprise, a common phenomenon of many mixed economies.

The postwar interest in land reforms has considerably abated. K.N. Raj has rightly remarked that the recent technological breakthrough in agriculture cannot be sustained and spread among all types of farmers if corresponding institutional reforms are not pushed through. Mexico ignored this aspect of rural transformation and as a result has a dual rural economy. Bose has a similar approach and explains differences in regional performances with reference to technological innovations, agricultural policies, and rural institutions and infrastructure.

Does unequal distribution of income necessarily lead to higher rates of domestic savings? This is more or less the theme of the papers ready by Amiya Bagchi, Sayeedul Huq, K.N. Raj and Nuruddin Chowdhury. Criticising the Mahalanobis strategy of concentrating on capital-goods industries as a means of raising the marginal rate of savings as well as the rate of growth of the economy, Bagchi quotes facts and figures to argue that "the Government of India has deliberately or unwillingly transferred incomes from poorer to richer income groups by means of its pricing, fiscal, and direct control policies but this has not noticeably changed the rate of savings generated in the economy". Sayeedul Huq and Nuruddin Chowdhury see a similar process in Pakistan in the shape of a transfer of resources from agriculture to industry. They considered this process to be natural only in the initial stages because of the socio-economic circumstances of the country. Raj, however, questions the prevalent notion that the rate of saving in India is very low. An underestimation of this rate is due to the exclusion of private investment in agriculture and the use of net rather than of gross saving. It is therefore important to identify the present sources and uses of saving and to reallocate them in such a way as to increase their productivity. None of the writers, however, discussed the impact of socio-political instability, caused by income disparities, on planned or existing rates of savings.

The papers on manpower development by Guatam Mathur and Shamsul Haq elaborate the familiar arguments in favour of development-oriented educational planning and rightly emphasise the integration of education plans with the overall national plans. The impressive theoretical models developed in this field need to be translated into practice by the countries concerned.

The problem of choice of techniques has many dimensions some of which are discussed in the book. Azizur Rahman Khan's valuable paper on shadow prices demonstrates that in a developing country like Pakistan the relative factor prices in the market tend to overstate the social costs of labour and understate that of capital with the result that greater capital intensity than is socially desirable is built up in the economy. This situation, leading to under-utilization of productive capacity, is a clear proof of the wastage of capital which is an extremely scarce factor. Hence he suggests the adoption of accounting (or shadow) prices for estimating the social instead of the market rate of returns. The performance of developing economies in terms of their social costs and prices shows that many so called "achievements" may be quite negligible. Furthermore, maintenance of the divergence between social costs and market prices causes greater concentration of incomes. The estimation of shadow prices, however, is a difficult problem. Moreover, the divergence between social and market prices is not merely confined to developing economies; but is likely to be present in developed nations in all situations of oligopoly and imperfect competition.

The techniques of annual sectoral programming, labour-intensive and capital-intensive planning are discussed with a background of Ceylon's economic problems in two refreshing papers by Lal Jayawarena and B. Hewavitharana respectively. One could hardly disagree with the emphasis in these papers on rationality and caution in substitution of labour for capital and vice versa and on coordination between the treasury and planning bodies and between macro-planners and project-planners. Economic decisions in less-developed countries have to be made under conditions of uncertainty. T.N. Srinivasan's brief paper deals with this aspect.

Ziauddin Ahmad's excellent exposition of inflationary pressures in developing economies will be of particular interest to economists and policy makers. These pressures essentially result from the underemployment of resources, particularly in the foodgrain sector. Hence the solution lies in tackling all factors which influence inter-sectoral and intra-sectoral resource allocation and the average productivity of investment. Cuts in consumption or investments are ineffective because underdeveloped economies do not have full-employment and hence are not subject to the Keynesian inflationary gap analysis. Ziauddin Ahmad's disaggregative approach, however, assumes that prices are determined in competitive market conditions but such conditions seldom prevail in under-developed economies. Further, his main emphasis is on output but supplies in Pakistan are equally affected by a defective distribution system and large scale smuggling of foodgrains to India and Afghanistan. V.V. Bhatt's treatment of inflationary conditions in India is similar but his solutions are less specific.

Amartya Sen has discussed feasibility constraints in the context of strategies of economic development. His crisply written paper carries the reader no further than telling him that certain non-economic barriers (which he calls feasibility constraints) may exist in the utilization of technological possibilities of a plan and that these barriers must be incorporated in planning models. This is a very discouraging approach because it amounts to accepting the status quo. To give his own example, cow worship in India prevents the use of hides and skins, hence it is a feasibility constraint on the development of leather industry. But the question is: should no attempt be made to improve the institutions? In Sen's words all institutional changes, including land reforms, would become impossible at least in the short period because vested interests would provide the necessary feasibility constraints.

Anisur Rahman is concerned with another type of constraint, *viz* minimum level of consumption required in the initial stages of development. He refutes the presumption of this constraint that higher consumption is incompatible with growth. Higher consumption, because of higher wages, would lead to greater productive capacity because of improved physical and mental health of workers. In contrast to Sen, Anisur Rahman's approach has a note of hopefulness. However, his model largely depends upon two implicit assumptions, *viz.*, that the labour does not have a zero rate of saving and that increased productive capacity does not remain unutilized.

Strangely there is no paper in the book on the overall strategy of economic development. Economists are fond of preparing future projections and making economic forecasts, but quite often they do so without taking note of gathering political and social storms. The present gross national product versus employment controversy, a result of economic disappointment of 1960s, could not be foreseen by a Conference not held long time ago.

The papers and discussions on the questions of trade and aid are interesting and informative. Manmohan Singh has surveyed the foreign trade policies of advanced and less advanced countries in the context of economic development. His attack on the neo-classical approach is judicious. In this approach there is no scope for an independent treatment of foreign trade difficulties, seen as deviations from an ideal situation which can be easily corrected. But the current foreign exchange constraint on economic development requires that appropriate trade and aid policies be pursued. Nurul Islam's highly informative article traces the factor intensity of Pakistan's manufactured exports. He has found that Pakistan's manufactured exports are overwhelmingly labour-intensive, and that this characteristic is more pronounced in the case of cotton and jute textiles than other miscellaneous exports. Further, a majority of the miscellaneous exports are highly import-intensive, though many of them originate from industries which have less than average size for the industry as a whole. Which of these characteristics should be encouraged is a question which Nurul Islam has left to policy-makers to answer.

Syed Nawab Haider Naqvi's startling estimates of the net indebtedness which Pakistan (as it was before 1971) will accumulate by 1975 points to the dilema that aid-financed growth creates for receipient countries. Higher domestic savings are required to meet the debt service liabilities but there are limits beyond which savings cannot be mobilised. Hence the need for new foreign borrowing, which leads to a further accumulation of net debt. Naqvi's hope that the solution lies in donor countries' willingness to advanced fresh loans at soft terms must be considered optimistic in view of the current problems and attitudes of developed countries. Wahidul Haque's analysis of the problem of regional allocation in a developing country receiving aid is theoretical, is based upon doubtful assumptions, and gives the impression that it is meant for confederating or very loosely linked states.

Jagdish Bhagwati and Benjamin Cohen have explored the possibilities and advantages of cooperation between Pakistan and India in the fields of trade and tariffs. In addition to this theme, Bhagwati has also discussed the problems of regional development within a country and has laid down some useful guidelines. Cohen has identified, though not always correctly, a number of similarities in import substitution and export promotion policies of both the countries and on this basis has proceeded to discuss the benefits of a customs union between India and Pakistan. However, the paper writers and discussants have ignored the costs and dislocations involved in such economic groupings. The only exception is Ziauddin Ahmad's fear that trade liberalisation within the region may encourage the use of low-quality, non-competitive machinery and other goods. Apart from this, there is an air of unreality around the whole theme. Economic groupings invariably follow and not precede political understanding and cooperation. Such cooperation, to be durable, requires a solution of political problems to the satisfaction of all parties concerned. This precondition is unlikely to be satisfied in the near future, even though Amartya Sen has some doubt as to where the exact border between the two countries lies (p.369). Actually, apart from a political border there is a social border as well. To take Sen's own example of the feasibility constraint, in India hides and skins cannot be used for the development of leather industry because of religious reasons. No such constraint exists in Pakistan because here animals are eaten and not worshipped. The alternative grouping which may be politically viable is between Pakistan, Turkey, Iran and possibly Afghanistan. The former three have already instituted a loose economic group called the R.C.D.

One feels that the price of the book is prohibitive for an average South Asian buyer. A cheap paperback edition would be very welcome.

REFERNCE

1. Robinson, E.AG. and Michael Kidron, (eds.)*Economic Development in South Asia*. (London: Macmillan and Co. 1970, Pp. xxii+586).