

## *Book Review*

Amiya Kumar Bagchi. *The Political Economy of Underdevelopment*. London: Cambridge University Press. 1982. Reprint 1983. pp. viii+276. List of books for further reading; Index. Price: £ 8.50 (paperback edition).

Amiya Kumar Bagchi, an eminent economist of the modern Cambridge tradition, has produced a timely treatise, in a condensed form, on the development problems of the Third World countries. The author's general thesis is that economic development in the developing societies necessarily requires a radical transformation in the economic, social and political structures. As economic development is actually a social process, economic growth should not be narrowly defined as the growth of the stock of rich capitalists. Neither can their savings be equated to capital formation whose impact on income will presumably 'trickle down' to the working classes. Economic growth strategies must not aim at creating rich elites, because, according to the author, "maximizing the surplus in the hands of the rich in the Third World is not, however, necessarily a way of maximizing the rate of growth".

Throughout the book, the author maintains the position that the underdeveloped countries generally imitate the advanced capitalist countries in following various methods and techniques for economic development. Moreover, the overall methodology of development economics is based on the neo-classical paradigm, which does not answer the problems of the underdeveloped countries. Consequently, the economic plans constructed on the foundations of neo-classical hypotheses and assumptions fail to materialize in the real world. In these developmental and intellectual efforts, the developing countries have not been able to rid themselves of the capitalist domination over their economies and politics.

Bagchi opens the book with a discussion of the development experience of rich nations (North America, Western Europe, South Africa, Australia and Japan) and of a large group of poor nations, characterized by a conglomerate of undeveloped institutions and mal-nourished, ill-clad, illiterate, and poor people.

The author is careful to point out that within the developing societies there is also a sharp division between a tiny minority of affluent persons who own a major share of the means of production and the vast majority of very poor persons who live in miserable conditions. The author has successfully elucidated some of the historical origins of these divisions among peoples and nations on the basis of class analysis. This has enabled him to analyse social change within the dialectic of the interaction between the relations of production (the relations between social classes grouped according to their relationships to the means of production) and the forces of production. When social relations (laws, property rights, customs, etc.) start hindering the progress of material forces, they ultimately lead to social revolutions.

After a discussion of pre-capitalist social formations, the author takes up the problems of the different phases of capitalism in Western Europe and the meaning of exploitation. According to the author, the colonies of the European countries saw only the mercantile phase of capitalism. There was no clear succession of stages of mercantile and industrial capitalism in the Third World countries. This is the reason that many elements of the pre-capitalist social organization have remained intact along with the growth of commercial relations within the economies of the Third World. The author broadly defines exploitation as the "process of extracting a surplus from the Third World countries by the ruling classes . . . of capitalist countries . . ." (p. 15).

In Chapters 2-9, the author delineates the causes and antecedents of underdevelopment, or what the author prefers to call, 'retardation' in the Third World, and analyses the social systems as a whole, and not as isolated problems relating to isolated sectors, the system of prices, outputs, income, balance of payments, as is generally done by professional economists. Thereby he decisively rejects neo-classical economics which takes a price-guided market system as the only 'rational' economy worth discussing and analyses the processes which have made the Third World countries the retarded preserves of the advanced capitalist states. The author clearly underlines the internal social, political and economic structures of the Third World countries which make them subordinate or subservient to the more powerful developed countries.

After a detailed discussion of the penetration of colonialism in Latin American and Asian countries the author deals at length with the phenomenon as experienced by India. The exploitation of India during the 1757-1813 period, says the author, was done through the legal monopoly of the East India Company aided by European merchants. "Part of the surplus realized through the trade and revenue system in Bengal was utilized to extend the British dominion over the rest of India . . ." (pp. 80-81).

Bagchi estimates that at least 5-6 percent of the gross domestic product of the ruled land was siphoned off to Europe. This drain of investment resources out of India can be compared with the 7 or 8 percent of national income invested by Britain during the period of her Industrial Revolution. We can thus easily see the havoc done to the Indian economy by the British rulers (p. 81). From 1813 – 1858 such measures were taken as (1) promoted 'free trade' in India, run by the European firms ('agency houses', later becoming 'managing agencies') which controlled the foreign trade and (2) transformed India into a producer of raw materials for the industrialized countries of the West, particularly Britain. India was thus unable to become a leading manufacturing country. From an exporter of cotton manufactures, India became its importer from Britain.

Between 1937 and 1956, India moved from unilateral dependence on Britain to a multilateral dependence on advanced capitalist countries. In the first phase of import-substitution, industries of consumer goods were established. As a whole, however, owing to mass illiteracy, poverty and weak social structures, the market for durable consumer goods remained restricted. "The state apparatus precariously balanced the interests of the landlords, monopoly capitalists, professional classes, and collaborationist elements in the upper classes" (p. 94). Hence, government policy was never radical enough to release agriculture from conditions of semi-feudal bondage to lay a firm base for assured growth. "India had in effect made a transition from the demand-constrained stasis of colonial times to the multiply-constrained three-legged race of a neocolonial, retarded society" (p. 94).

The depression of domestic demand in the home market due to the continual drain of surplus value from the Third World and its failure to industrialize kept the internal absorption of exportable products low. This made it difficult for private investors to build up manufacturing industries in the Third World countries.

The import-substitution process could succeed only in those countries which had large populations, large markets and more developed indigenous class of capitalists. But the growth-stimulating effect of such investments in basic consumer goods could not last long. This range of consumer goods could not be widely diffused among the broad masses who remained poor, and whenever terms of exchange shifted towards agriculture and rural income – away from urban and fixed-income groups – the markets for consumer goods contracted again.

The early or easy phase of import-substitution lasted (in India) until the middle of the 1950s, and for major Latin American countries like Brazil, until the end of the 1940s. The second, difficult, phase of consumer industrial goods poses more problems. The economies of scale in the production of many durable goods, such as cars, scooters, and refrigerators, are considerable and large as compared to those in the production of light consumer goods, and in many cases a plant has to produce in excess of the absorptive capacity of the domestic market. They also need highly

skilled manpower and highly sophisticated technology. But the production of such durables has already been monopolized by giant transnational corporations of America, Europe and Japan. The less developed countries are unable to compete with the advanced countries in this international market of durables. Therefore, most Third World countries find that the more they try to industrialize through import-substitution, the more they become dependent on advanced capitalist countries. If they had followed Japan in the early phase of import-substitution industrialization by banning the entry of foreign capital and foreign firms, they would not have fallen into their present critical phase of dependence and retardation. But they were unable to do so for various social and political reasons. This fact aggravates the already precarious economic and social conditions of the economy because the indigenous capitalists, who are generally weak, collaborate with multinational corporations for import of durables. The case of Brazil has become classical among the Third World countries which have large populations, like Pakistan and Turkey.

As a consequence of the late phase of import-substitution industrialization, the import of consumer goods is restricted or altogether eliminated, while the demand for imports of intermediate goods and more sophisticated capital goods increases. Any fall in agricultural production, and hence a fall in the export of raw materials and import of food grains, leads to balance-of-payments crises. The Third World countries resort to various controls — foreign exchange control, multiple exchange rates, quota restrictions, tariffs, and subsidies on exports. On the other hand, the IMF, the World Bank, the advanced capitalist governments and neo-classical economists have been urging the underdeveloped countries to support free trade and devalue their currencies to correct their adverse balance of payments. The IMF policies of devaluation plus restrictions on bank lending and curtailment of government expenditure, enforced in many countries of Latin America and in Turkey, instead of curing inflation and chronic balance-of-payment crises, have arrested the growth of the economy . . . “given the typically low elasticities of supply of exportables, and of demand for imports and the high propensity to import on the part of property owners, an unstable growth process is hard to avoid in retarded economies” (pp. 140-141).

The author thinks that the latest development of turning some South-East Asian countries into subcontractors for low-wage enclaves for turning capitalist goods into finished products for international markets, will not help the retarded societies. Nor will free-trade, export-led growth policies help the developing societies. However, the resolution of the problem does not lie in yet another dose of forced orientation towards world capitalism; it lies in development of economic structures, techniques, and organizations that will foster an inward growth of these economies and will produce strong *internal* connections between different sectors of the economy and different occupational groups. “The logic of capitalist exploitation and domination has hindered such a development so far” (p. 146).

The author lays special emphasis on the transformations brought about in the pre-capitalist social structures by the colonialist conquerors of the Third World. The colonialists legalized slavery, restricted the movement of people, alienated land from tribes, imposed taxes on particular groups, and most importantly, made the law that land was a commodity to be sold and purchased in the market as a result of which land and labour became free commodities. Moreover, infrastructures were created to facilitate the diffusion and marketing of cash crops. Railways, irrigation works, and port facilities were built up for this purpose, such as in India, Egypt and Indonesia. The aim was to increase the production of cash crops for exports. The state apparatus only helped the rich farmers by providing them with credit and other facilities of infrastructure.

There is thus an all-round development to integrate Third World agriculture in the network of international capitalism, which has sharpened social contradictions and polarized the social classes in rural as well as urban areas. "Thus the completion of the historic tasks of capitalism in Third World villages, while helping the capitalist classes to acquire a firmer grip over the economy, is also sowing the seeds of disintegration of the system, at least in its current form" (p. 178).

The last chapter ("Planning for Capitalism in the Third World") contains a lucid discussion of development strategies in Turkey, India and Pakistan. The purpose and content of state intervention in the economy and planning of overall development in the Third World have meant different things for different people after the Soviet Union launched its first five-year plan in 1928 for socialist development. For some, it means intervention in support of private enterprise; for others it must aim at the entry of the state into sectors which private enterprise dreads to enter for lack of profit and experience. For other groups, it has meant gradual elimination of private enterprise by collective action for the criteria of social welfare.

The author ends his discussion of planning with the following apt words:

"The use of planning in Third World countries to promote dependent capitalism may also be seen in the scramble for aid on the part of most countries apparently attempting to reach self-reliance, even though 'aid' generally inhibits efforts at gaining autonomy. Indeed, planning exercises are often carried out to make out a case for more aid from the World Bank and its soft-interest affiliate, IDA, the US government and other members of the OECD. Planning aimed at reinforcing capitalism in Third World countries can only reinforce the tendency towards retardation . . ." (p. 250).

In sum, the book clearly underlines the crisis within the discipline of development economics, and its techniques and strategies of development and growth. The developing societies must take a fresh look at these strategies, approaches, and

methods. Any socio-economic system is a total system and economic development must be seen as a total social process comprehending all areas, sectors and spheres — economic, political, social and intellectual. One cannot reduce everything to a monetary value, a commodity bought and sold in the market with money and then analysed as a theorem of general equilibrium of supply and demand. The conventional science of development economics must supplement its method of neo-classicism with some other radical approaches which should aim at basic and radical changes in the economic and social structures of the poor developing countries. Development economists must not become apologists of a decadent status quo controlled by a tiny minority of elites, and blindly imitate the neo-classical models developed in the advanced capitalist countries whose economic conditions do not relate to those of the developing societies. The former have developed their industrial and money economies to a level at which consumption, investment and employment patterns and other variables can be accurately predicted. The latter still include pre-capitalist feudal and even pastoral tribal economic and social formations which characterize anarchy of production and which belie all hypothetical predictions and assumptions of a *homo oeconomicus*.

A guide to further reading and a select bibliography have enhanced the usefulness of the book. Like other monographs of the Modern Cambridge Series, A.K. Bagchi's book is a very important contribution not only in its analysis of the development problems of the Third World in a broad historical and social perspective, but also in its intellectual departure from the conventional economic theory of neo-classicism.

**Ziaul Haq\***

\*When he wrote this book review, Dr. Haq was Senior Research Economist at the Pakistan Institute of Development Economics, Islamabad (Pakistan).