

Deepa Nayyar. **India's Exports and Export Policies in the 1960s.** London : Cambridge University Press, 1976. Pp. xviii+392.

V. V. Shatt
World Bank

These two books relate to India's development policy and the two major constraints on her development: Mitra deals with the food-agriculture constraint and Nayar with the export constraint. However, the scope of Mitra's book is much wider; it represents an elegant and convincing reinterpretation of classical economic thought (Smith-Ricardo-Marx-Rosa Luxemburg) and relates it to actual historical development processes as well as to the present Indian conjuncture.

Nayar studies in depth India's export performance since 1960, as Manmohan Singh had for the pre-1960 period. He quite rightly analyzes the changing export structure by individual commodity groups to take into account the specific supply-demand constraints. He finds that the supply-production constraints have been dominant and the export performance has depended largely on domestic production levels in relation to domestic demand. Purely export-led growth would not have been possible given the fact that India had to concentrate on new commodity groups, and it would

have been quite risky to cultivate dominantly the export markets without a domestic demand base. Thus, India's strategy of industrial development was, Nayar finds, quite appropriate; the recent spurt in exports would not have been possible but for the capacities built as a result of this industrial strategy.

But this strategy did introduce certain rigidities in the production structure, and the neglect of the potential export possibilities at the time of the design stage of projects affected the scale and efficiency of some of the Indian industries. Yet these rigidities did not affect productive efficiency as much as Nayar seems to suggest. I have analyzed the crude domestic resource cost (based on actual export-import prices—net of taxes and subsidies—with imputed international prices only for the final products) of a large number of industrial projects financed by the Industrial Development Bank of India (IDBI) and the Industrial Credit and Investment Corporation of India (ICICI). These data suggest that the domestic resource cost of most of the projects during 1960–75 was less than Rs 10 to US\$1.¹ It is surprising to find that even the cost structure of an automobile plant producing less than 5,000 units per year has been comparable with the cost structure of foreign large-sized plants. Contrary to general impressions, India's industrial structure, by and large, is not as inefficient as suggested by analysis of aggregative data.

What really affected India's export performance adversely were ill-designed discretionary export policies. Of course, the shift of emphasis toward exports took place as early as 1960. However, export incentive policies related to *specific* commodities and again did not relate to traditional commodities as well as to products of new enterprises. As the data on the ICICI- and the IDBI-financed projects suggest, the exchange rate should have been changed to Rs 10 to US\$1 as early as 1962 and export subsidies should have been related to the taxes on inputs. Or, alternatively, after raising the exchange rate to Rs 10, a flexible exchange rate policy should have been designed for nontraditional exports and nongovernment imports. The discretionary nature of the control system and the somewhat arbitrary character of the criteria for export subsidy did reflect adversely, as Nayar analyzes, the exports of traditional goods and of new commodity groups like clothing. Since 1974, the system has been rationalized; and, with a lower inflation rate in India than in a large number of the other countries, Indian exports have risen at a significantly high rate. The real bottleneck now is indeed the growth rate of output and particularly the agricultural and industrial output. Thus, Nayar provides a good corrective to the simplistic and superficial distinction in the literature between export-led and import-substituting development strategies—a type of

¹ See Industrial Credit and Investment Corporation of India, *Export Performance of Companies: ICICI Portfolio* (Bombay, 1977), and *Economic Rate of Return: ICICI Projects* (Bombay, 1975); and the *Annual Report of the Industrial Development Bank of India (IDBI), 1971–72* (Bombay, September 1972).

analysis that ignores history as well as geography and relies on tools inadequate for understanding the historical sequential processes.

Mitra's major thesis relates to the terms of trade between agriculture and industry. This is the critical relationship for a country which tries to industrialize. Smith and Ricardo emphasized this relationship, and Ricardo, in fact, considered the landlord class as the parasite class which enriches itself at the cost of the capitalist and working classes. Marx came on the scene when this issue was already decided against agriculture and hence did not emphasize this conflict as much as the conflict within the industrial system between the capitalists and the workers. However, this issue was taken up in Russia during the great debate of the 1920s on development strategies, and Rosa Luxemburg analyzed it rigorously, as did Kalecki a little later.

But this is not merely a case of unbalanced development; it is a problem in the class structure—relations of production—and its impact on state policies. And this is the critical point which Mitra develops. Hence, any social science—like economics—has to deal with the behavior of social classes and groups and how these class relationships generate social dynamics. For understanding social reality, and particularly the development process, economics, as it has evolved on the basis of the assumption of an autonomous utility-maximizing individual faced with markets which he cannot affect, is—Mitra argues—irrelevant. Again, socioeconomic change takes place in historic time, and the class relationships cannot be expected to adjust smoothly to the emerging technological basis because of the distributional consequences of change. The class conflict, at such times, is crucial to the understanding of the dynamics of the process of change; and the nature of the polity and its power base in specific classes inevitably condition the process of adaptation. Thus, the class structure and its impact on the power structure and state policies are vital elements that cannot be ignored in social analysis. No polity is conceivable which would tend to promote any abstract idea of social welfare or good; the neoclassical assumptions about individual and state behavior are simply not only irrelevant but also are obstacles to understanding social reality.

Such is Mitra's broad theme, which he develops with great clarity, precision, and artistry as it applies to the Indian case. Of course, Mitra does emphasize other loyalties and affiliations inherited from the past: religious, linguistic, caste, and communal relationships. These loyalties sometimes transcend class boundaries. Unlike Marx, Mitra has no unilinear theory of development, for he recognizes the other alternatives, and that is why Mitra would like to change first the superstructure through intellectual leadership, a task which Marx recognized implicitly but did not emphasize.

It is with such an analytic frame that Mitra tries to explain the post-1965 industrial retardation in India. His basic point is that the rich farmers—the rural oligarchy—are responsible for this phenomenon, since they

tended to restrict agricultural output with the hope of raising food prices; this has caused a profit squeeze in the industrial sector and a low rate of government saving. Again, the farmers do not use their surplus for financing productive investment; they divert their resources to moneylending, trading, and speculation. They exert pressures on the government to fix unduly high procurement prices.

I doubt whether Mitra's conclusions are firmly grounded in fact. At least in states like Punjab and Haryana, the available evidence shows that (a) the saving propensity rises with incomes, (b) the surplus is largely used by the rich farmers for financing productive investment, (c) all categories of farmers have adopted the new seeds-fertilizers-water strategy for raising output, (d) the real wages of agricultural labor have risen, and (e) the income inequality among the progressive farmers is less than that among the nonprogressive farmers.² In Haryana, only the middle-level farmers have taken to moneylending; but even this activity has enlarged the volume of credit to small farmers for financing investments. The basic causes of industrial stagnation seem to be (a) the fluctuating level of agricultural output and its inadequate long-run growth and (b) the failure of the government and industrial bourgeoisie to take advantage of the spurt in agricultural output during 1967-70 and after 1975 to raise the level of productive investment sharply. Lack of political and intellectual leadership even within the given frame of social relations seems to be the proximate cause of the phenomenon which Mitra tries to analyze. This is not to suggest that Mitra's analysis may not be valid in the long run.

Few books in the development literature provide the perspective and insight which this book does. It is in the classical tradition, both literally and figuratively.