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**Post-Keynesian Theorists and the
Theory of Economic Development**

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THEORY OF ECONOMIC DEVELOPMENT

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What is the contribution of the post-Keynesians to the theory of economic development? This question may seem an unusual one to ask at first sight. This is because a great deal of post-Keynesian economic theorizing has been devoted to analysing issues which are apparently relevant only for developed market economies. However, it is not correct to conclude from this fact that they had little substantive contributions to make towards analysis of economic development. Michael Kalecki, Nicholas Kaldor, Joan Robinson were among the front rank of post-Keynesian economists. Each of them had some very important things to say on the phenomenon of economic development, more specially, on the policy side. They had considerable first hand experience of working in major developing countries, especially in Asia and Latin America. Unfortunately their writings were generally scattered in many different and somewhat inaccessible places. More importantly, their impact has been limited by the fact that the central propositions on which their work rested have seldom been viewed in a coherent manner in the development context. Roughly speaking, this is what I propose to do in this essay. Towards the end, I point to some of the major limitations on their applicability especially to the least developed of the developing countries whereas I show that they help us to conceptualize better some of the pressing problems faced by the more market oriented developing countries.

From my preceding observations, it should be clear that the post-Keynesians constitute a group of people, some of whom could be regarded as collaborators of Keynes and some of whom who were converted to Keynesian theory only a little later, such as Kaldor after an initial encounter with Hayek. In this group I would also include Richard Kahn, who wrote a sadly neglected but important article which expanded the scope of Keynes' reasoning to include a development dimension.¹

1. See R.F. Kahn, "The Pace of Development" in Essays in the Theory of Growth, Cambridge University Press, 1972.

We have mentioned Michael Kalecki as a post-Keynesian but some would maintain that he developed a theory of effective demand quite independently of Keynes. However, for many years he devoted considerable attention to problems of economic development in Cuba, India and to his own Poland, a semi-developed country during the fifties. Some would like to say that these economists all belonged to the older generation of post-Keynesians. What about currently active post-Keynesians? Among the more recent post-Keynesians there are several strands. We need not use any labels at this stage but point to the work that is being done by economists such as Luigi Pasinetti, Stephen Marglin, Alan Thirwall, Geoffrey Harcourt and several others. The important point about the post-Keynesians is that all agree with Keynes and Kahn in considering the priority of investment over savings. The causal relationship runs from investment to savings. This is the proposition which was first made by Kahn. Keynes developed it into the "General Theory" and post-Keynesians consider this as a core insight. Equally fundamental to their argument is the empirical observation that investment decisions are mostly taken by people independently of those who do the saving. Post-Keynesians consider this to be the essential feature of a market economy of the capitalist type.

This, of course, is not the classical position. The classics assumed that savings were automatically invested and they made no distinction between accumulation, investment and savings. These were all identical expressions for them. For the neo-classicists, investment and saving decisions are brought into equality via changes in the rate of interest and the rate of interest reflects the basic choice-theoretic fact that there is a cost of waiting to society as a whole. Some neo-classicists would maintain that savings determine investment, even though some of them would probably include a role for "forced savings" through credit inflation leading to price increases which in turn change the distribution of incomes in favour of saving classes. This idea can be traced back to Bentham, as Hayek showed in his history of the concept.²

2. See F.A. Hayek, "A Note on the Development of Doctrine of "Forced Saving", Quartely Journal of Economics, Vol.XLVII, November 1932, repinted in Profits, Interest and Investment, Kegan Paul, London, 1939.

But there is a second proposition which I think is equally critical to post-Keynesian analysis, which I think is not in Kahn and which I think needs to be emphasized here. To grasp it, we have to go back to certain "capital theory" controversies of the sixties and seventies. Those of us who have read John Hicks' paper "Capital Controversies: Ancient and Modern" included in John Hicks' collection, "Economic Perspectives", would know that Hicks made what he considered to be a fundamental distinction between the so-called "fundists" and the "materialists" in the theory of capital.³ According to him the classical economists all belonged to the group of those who saw "capital as a sum of value" which earns a uniform rate of return wherever it is invested. The "materialists" according to Hicks are those who identify "capital" with capital goods and there could be an endless variety of them: nine hundred or nine thousand, all different types of capital goods. Capital to them represents a very heterogeneous stock of means of production. Now according to the post-Keynesians a great deal of confusion in the neo-classical theory of growth and development has been caused by the unwillingness or inability to make a systematic distinction between capital as a sum of values and capital as a concrete stock of means of production. Lack of clarity on this fundamental point can give rise to two misleading conceptions. One misleading conception is that this initial stock of capital could be spread very thinly as if it were a kind of putty to employ as many people as you like or as few people as you like. This is the malleability assumption which has been used in much neo-classical growth theory which is simply not true. This point is important and it has considerable implications for our understanding of international aid and loan policies and international trade theory as well. Post-Keynesians believe that transfer of capital from one country to another in the first instance is basically transfer of finance. But this financial transfer does not ensure that it in fact leads to transfer of capital in the sense of channelling the means of production in the appropriate directions amongst different countries or leads to structural changes in the recipient countries leading to the emergence or strengthening of the capital goods sector.

3. See J. Hicks, "Capital Controversies: Ancient and Modern" in Economic Perspectives, pp. 149-165, Oxford

They believe that plans like the one of the Brandt Commission for transfer of funds have implied often the mistaken belief that this would lead automatically to a transfer of a stock of means of production. This way of looking at capital transfers may obscure the many steps which are involved between funds being available at one end and restructuring of the capital and output composition in the developing countries. ⁴

This point is also important because we have found very often the transfer of finance has really meant in many cases that countries after a little time run into very considerable debt difficulties later. Recall the 1970's: a large amount of finance was transferred particularly from the Euro-dollar markets as a part of the recycling process of OPEC surpluses especially to the developing countries of Latin America. But ten years later we find that the story has turned out to be very different and in many cases a very sad story indeed. The transfer of capital, understood as the transfer of funds that had been lent even at negative rates of interest for many years, have left the countries in a more difficult situation than they were before this large transfer was initiated. This is largely because funds having been sunk into diversified forms of plants and equipment do not automatically regenerate, nor can they be readily decumulated as much neo-classical economic reasoning would implicitly assume. Post-Keynesians consider that there is a basic asymmetry between accumulation and decumulation of capital. This, it may be recalled, is the crux of the distinction between Hayekians and the Keynesian theorists. Hayek worked out the self-adjusting property of the capitalist system on the assumption that cyclical decumulation was necessary for capitalism to maintain full employment. ⁵

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4. I believe that appropriate discussions on industrial policy issues must complement discussion on the potential recycling of Japanese surplus, an issue which has been highlighted in Wider study reports 1 and 2.
 5. Oddly enough, when during the 1930s' business cycles discussion were raging furiously, both von Hayek and R. Hilferding could agree on this point, thus leading to the neglect of appropriate demand management policies. For a detailed comparison of these two theorists, one a conservative and the other an eminent Marxist and leader of Social Democratic Party, see the article by P. Rosner; "A note on the theories of business cycle of Hilferding and Hayek", University of Vienna, Working Paper, June 1985.

The policy conclusion that post-Keynesians draw on the "international debt" problem are different from main line theorizing. As you will remember, the policy advice as to what has to be done on the debt question coming from the IMF is of a strictly neo-classical nature. If you recall the IMF advice, the policy is based on two major planks. One part is an austerity programme in terms of domestic deflation measures and the other part is setting "prices right". So it is a combination of austerity with price based allocation of resources which they feel would really set the countries on a proper path of adjustment and further growth. The post-Keynesians would say that such a programme would be neither necessary nor sufficient for achieving these objections and in fact some of them would go one step further and consider it to be a perverse form of adjustment. In fact, the effect of IMF adjustment policies on the standard of living of the poorer sections living in countries which have been obliged to implement the IMF advice would support the above negative view.

What is the crux of the difference between the post-Keynesians and the adherents of neo-classical synthesis on this set of issues? The idea behind the neo-classical approach is that a great deal of the problem of these heavily indebted countries is caused by inefficiency in the allocation of the investible resources. A basic cause of the inefficiency of the investible resources is the fact that government is really a big spender. As the government spends on a large scale and money supply increases, inflation is generated. Two things happen according to this account: one, resources move from high priority to low priority sectors on the list and the second thing is that on the margin investment in the private sector, which is alleged to be much more efficient in relation to output, is replaced by investment in the public sector which is insensitive to market signals. So the aim of the recommended policy is to cut down government expenditure and to reduce taxes so that this might balance the budget or move it to a more balanced position. In addition, governments are advised to move away from subsidies, particularly of various types of consumer subsidies and set the exchange rate at an appropriate level so that an equilibration takes place through the balance of payments. According to the monetarist view, which not everybody accepts amongst the neo-classicists, there is a direct relationship between the budget deficit and the balance of payments deficit, therefore, high budget deficit would

get automatically reflected in the import surplus. They feel that if the budget deficit is reduced, the import surplus will also be gradually reduced and meanwhile, if the subsidies are eliminated, prices will reflect true scarcities and this will all lead to a higher rate of growth.

So one can see that implicit in the neo-classical approach is the supply side point of the economic process along with the belief that the market prices unless interfered with by government reflect true economic scarcities. This is the logic of the policy on the basis of which I.M.F. has been recommending to country after country to carry on its adjustment process. The I.M.F. has turned out to be a debt collector and also in some sense gives confidence to the banks in the developed world to go in for fresh lending or renewal of debt. So to this extent their point of view is highly influential and important.

According to the post-Keynesians such a policy will not work. There are two sets of opinions held by the post-Keynesians in this particular context which I would like to distinguish. One group would emphasize the fact that export-led growth if it were possible would be more efficient. Kaldor was a leading advocate of export-led growth for countries which are in an intermediate stage of development.⁶ The export component of total demand appeared to him to be very important and he used to recommend a "dual exchange" rate for developing countries such as Chile, India, etc, along with more liberal import policy on the part of developed market economies. According to him and many others, if developed countries were not going to pursue a growth oriented policy along with a liberal trade regime in relation to imports from developing countries, in particular, the adjustment would not take place. Neither the debt could be redeemed, nor could the countries resume the old path of growth.

6. See N. Kaldor, Further Essays in Economic Theory, Duckworth, London 1978. See in particular the essay on "Conflicts in National Economic Objectives".

The other group of post-Keynesians are much more concerned about the home market and they would say, depending on the size of the country, that what is critically needed is an expansion of productivity in the principal wage good sector, namely agriculture.⁷ And so the agricultural growth will set the pace for industrial growth and for further adjustments.⁸ Now this is of course again different from Keynes; it is post-Keynesian, because Keynes was not concerned about the sectoral composition of outputs because he was primarily directing his policy advice to the mature capitalist economies in the depth of depression. The post-Keynesians make a distinction between sectors such as primary, secondary and tertiary. Some of the classical ideas about the terms of trade between industry and agriculture have been revived by them along with the need for having "appropriate" terms of trade from the point of view of maintaining a momentum of the growth process along with an equitable distribution of incomes. So there is an extension of thinking to a more disaggregated point of view. The other point is that many post-Keynesians would maintain that the balance of payments deficit is not a cause but rather the effect of a "disarticulation" of the economic structure. In other words, monetary imbalances reflect certain major structural imbalances in the economy. These structural problems emerge stronger because of balance of payment reasons and they, in turn, are related to the inappropriate structure of production and demand at home or to a deep "fiscal crisis" of a sociological nature. An essential part of the structural problem is the resistance on the part of labour and/or the unwillingness or inability of the capitalists to reduce their current consumption. According to post-Keynesians, these are the reasons why the balance of payment adjustment through exchange rate manipulation will not work. Because it will lead to "real wage resistance"

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7. In small open economies the home market will of course not play an important role unlike in countries like Brazil, Mexico or India.
 8. Kalecki used to stress the role of agriculture in much of his writings on development problems. See his essays collected after his death by the Harvester Press with an introduction by Joan Robinson, entitled Essays on Developing Economies, London 1976

on the part of labour and/or large emergence of excess capacity, because after all the neo-classical remedy operates either through unemployment or through real wage reduction and neither of which according to them would really lead to growth unless the elasticity of supply of exportables happens to be very high. Austerity measures of the IMF type may lead to a low level equilibrium situation but the debt is unlikely to be repaid through following such policies.

A further sectoral distinction some post-Keynesians would make was particularly emphasized by Kalecki. This pertains to a distinction between what one may call "luxury" consumer goods and "functional" consumer goods, or in other words, between "luxury" consumer goods and wage goods. That is also an important component of post-Keynesian thought as distinguished from what one would call Keynesian thought, because for Keynes spending on luxury goods was not considered to be any worse than other forms of expenditure, but so far as the post-Keynesians are concerned, it is unwarranted to ignore such a difference in the development context. The Kalecki-type disaggregation goes back to Marx's distinction between three categories of output: department one producing capital goods, department two producing wage goods and department three which produces luxury consumer goods which enter into capitalists' consumption. But according to post-Keynesians, if you apply this scheme to the development process, the wage goods would consist not only of factory made wage goods but of agricultural products, especially food. For a variety of reasons, the rules of price formation are different in these different sectors. In an open economy, departments I and II may usually consist of imports. Here again the post-Keynesians go back to the idea that if one has transfer of capital, meaning hereby only transfer of finance, this transfer could directly or indirectly lead to a direct promotion of luxury goods production or of intermediates which end up in producing luxury goods, or investment goods which lead to the extension of capacity in the luxury goods industry. All this might very well show up in a high rate of growth of the aggregate Gross Domestic Product (GDP). But this according to them is not development. The post-Keynesians hold the point of view that development measured by GDP is not an appropriate measure of welfare. And besides, they would say that such a growth is most likely to lead in most cases to external indebtedness in an open economy.

The problems of indebtedness in many developing countries, especially in Latin America, have been due according to the post-Keynesian theorists to their inability to observe a careful balance between these three sectors. Brazil and Mexico, in the late seventies, according to the post-Keynesian diagnosis, were examples of unequalizing growth. For a while such unequalizing growth could sustain itself because the domestic production of durable consumer goods could be speeded up and the wage good sector allowed to remain depressed through resort to a large scale import of food and other wage goods. The loans increased the finance available for absorbing greater quantities of domestic consumer goods as well as for producing intermediates entering into their production. Cheap finance allowed some of these countries to produce domestically on a large scale consumer durables and to evade the incipient stagnation of GDP for a decade. Post-Keynesians do not take the view that developing countries necessarily run into the "stagnation trap". But they would say that such difficulties are often latent in such situations especially if the food producing sector is neglected. In these countries, sooner or later, when the flow of new funds falters, one runs into troubles. Or one may run into domestic problems created by accentuated inequality. Or one discovers that one is unable to create a sufficient annual surplus of exports over imports. A belated recognition dawns on the policy makers that the transfer of funds has been wasted in not having led to an increase in the stock of means of production that could be maintained. A disproportionate capital stock can be brought into some balance through allowing for capital consumption but as we have pointed out already, capital decumulation is a profoundly painful process. Countries which are heavily indebted today will have to restructure the domestic production structure to bring it in balance with the demand structure that is appropriate to them. They should not try to stick to export at any cost and minimize imports with a view to service the debts, if it dampens domestic demand and employment excessively.

There is a third very fundamental point of difference between post-Keynesian and neo-classical economists. Neo-Classicals would say that there exist a set of prices at which the market will be cleared; there is a market for foreign exchange, there is a market for labour, there is a market for commodities or say any other market that you may think of. True, they would say that this might involve an adjustment process by which

certain sectors might be hit harder compared with certain others, but neo-classicals believe that once the right prices have been set, it should be possible after a period of transition to improve everybody's condition. This is because neo-classicals believe that price sensitive adjustments generally constitute Pareto-superior moves. Hence the neo-classicals maintain that some of the problems of heavily indebted countries arise out of lack of adaptability which is created by keeping prices rigid, which prevent them from adjusting sufficiently fast to the signals thrown up by the market prices, especially world prices. The monetarists in particular would say that the imbalances, among which the balance of payments deficits figure prominently including high stock of debt were triggered off by means of continued budgetary deficits on the part of the governments.

To summarize, there is a fundamental difference of perspectives between the neo-classical approach to development and the post-Keynesian approach towards development. This difference in my opinion rests on four major grounds. One is the post-Keynesian opinion that the problem of demand is a very important factor along with problems of supply. Secondly, post-Keynesians emphasize a particular classical structure of the production process which emphasize the distinction between luxury goods, wages goods and capital goods. Thirdly, post-Keynesians emphasize the distinction between capital as a "fund of value" and capital as "a concrete stock of means of production". Fourthly, post-Keynesians do not accept the view that in all situations there exists a set of market clearing prices, which defines an efficient economic configuration. Given these four propositions, post-Keynesians believe that neo-classical errors arise from not taking into account the disaggregated structure of the production process along with relative fixity of techniques. Given these rigidities and other basic facts, income distributional issues are heavily influenced by socio-institutional forces. As an illustration of the point of difference, let us take the "two gap model" which takes the balance of payments deficit along with the savings deficit as two basic constraints on growth. According to the post-Keynesians the two gap model is an insufficient specification of the problem of the growth process. It is not that they would deny that those two gaps are interdependent. But they would add that the fundamental cause of these financial imbalances lies in the

fact that countries are unable to restructure their production.⁹ One is unable to restructure production because of the social and political considerations on both the taxation side as well the expenditure side. Subsidies to urban consumers and rural producers are just two amongst many. The emergence of the two gaps is due fundamentally to technology and institutional maladjustment.

Post-Keynesians and Structuralists:

Is there a difference between the post-Keynesian approach and the "structuralist" approach? The expression "structuralist" needs a clearer definition than one normally given in certain text-books which include R. Prebisch, H.W. Singer along with H.B. Chenery and some of his associates such as M. Syrquin and L. Taylor, especially early Taylor. The crux of the "structuralist argument" is to be found in my opinion in an early and influential paper by Richard Eckaus.¹⁰ Eckaus deals with three sets of issues which include market imperfection, overpopulation and rigidity of production coefficients. His objective was to show that in many developing countries, market clearing wage rates exceeding or equalling the subsistence wage rate may not exist, given typical demand configuration, domestic and foreign. This formulation which is similar in some respects to the point of view of Rosenstein-Rodan emphasizes structural disequilibrium at the factor level and is not inconsistent with the Prebisch-Singer point of view. Emphasis on market imperfection is especially germane to Prebisch's view on the declining terms of trade of primary producing countries.

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9. The neo-classicals would say that one is unable to restructure the production to eliminate the two interdependent gaps because one is not willing to set the prices right. Their reasoning assumes that there does exist a set of non-zero market clearing prices. This, however, is treating the disequilibrium problem too cavalierly. It is not at all clear that there exists a set of non-zero prices at which all the markets will be cleared, especially if labour has to receive a conventional real wage.
10. See R. S. Eckaus, "The Factor Proportions Problem in Underdeveloped Areas" in "American Economic Review", 1955, Vol. 65

In my view, the structuralist approach has something in common with the post-Keynesian approach but is not the same. It is, however, possible that they have more in common with each other than they would have with the neo-classicists in so far as the neo-classical position emphasizes "substitution on the margin" as a major feature of economic life.

The structuralist understanding of the "growth process" has several features, some of which they share with the post-Keynesians. First, structuralists would agree that the insufficient productivity growth of the wage good sector, particularly food is very important as an explanation of the present conjuncture facing the developing countries. Post-Keynesians will not deny that. The second point is that the structuralists will find that there has been a pronounced labour saving bias of technology and only if the technologies were made more labour using or adapted more in the direction of intermediate technology that appropriate relationships between available capital stock and labour could be achieved. Post-Keynesians will be somewhat sceptical about this. They will not deny its empirical validity, because they would stress that productive choices in capital scarce countries do not exist in sufficient abundance to be able to eliminate the problem of unemployment. The unemployment problem as they see it, is a consequence in part of adopting capital intensive technology by labour abundant countries, but also because of insufficiency of the overall level of investment. On the question of what limits the permissible level of investment, the post-Keynesians and the structuralists may have some differences of opinion especially on the inducement to investment. Thirdly, the structuralists would emphasize very strongly the necessity of decoupling the primary producing economies from developed market economies, thereby insulating them against the effect of adverse changes in the external terms of trade. Again, the post-Keynesians will not deny the importance of this problem, but they will say that any attempt to improve the terms of trade, if feasible, will not necessarily lead to the elimination of under-development. In this context, experience of rise in oil prices in the seventies is instructive. For the oil exporting developing countries the terms of trade were substantially improved without leading to a major self sustaining growth process, something that we can see for ourselves today. Here post-Keynesians would maintain the role of socio-institutional factors that affect propensities to save and invest domestically. Some structuralists with a strong left orientation would talk

about selective delinking from the rest of the world. In so far as this means a planned import regime, post-Keynesians may very well agree, although there are serious differences of opinion on this point as well. Fifthly, the structuralists would consider the lack of restraint on population growth as responsible for the deepening of the development crisis. Post-Keynesians would consider the population growth to be more a phenomenon which intensifies problems rather than constituting in itself a major cause of the problem. Sixthly, post-Keynesians and structuralists both emphasize the role of the distribution of incomes on the growth process and on the character of the growth process. Seventhly, the structuralists as well as post-Keynesians will emphasize the lack of balance between public and private investment, especially the lack of social overhead capital as a major constraint on growth. Eighthly, on the issue of propagation and impulse problems in relation to inflationary phenomenon, both post-Keynesians and structuralists will consider the monetary expansion as an adaptive process. Money supply is endogenous in both schemes of thinking.

As mentioned, post-Keynesians and structuralists will not only differ on the diagnosis of a number of problems but would also differ with respect to some of the suggested solutions. The most important difference pertains to the problems of direction of technological change, which according to the post-Keynesians cannot be shifted around very much to change either the distribution of incomes, or to generate additional employment. This is because they take the view that technological choices are largely rigid and the factors operating on the distribution of incomes are often in the realm of the class struggle. Many of them take Sraffa's paradigm on exogenously determined distribution seriously. Post-Keynesians do not deny that inappropriate production techniques do create mismatch between jobs and people, but the overall level of job creation depends more on the level of overall demand. The work done by Frances Stewart and Paul Streeten are good contemporary illustrations of the structuralist understanding of major issues relating to distribution and growth, whereas Eshag's book on "Fiscal and Monetary Policies of Developing Countries" is a good illustration of the post-Keynesian approach.

Self-employment in Development Theory:

Now I may draw your attention to an important question of development which has received insufficient attention up to now. It relates to the fact that 70 per cent or more of the population of big countries like India, Indonesia, China, Pakistan and Bangladesh is largely self-employed and for them none of the three theories neoclassical, post-Keynesian or structuralist, applies directly to large segments of the economy. In fact, economics has not adequately dealt with the problem of self-employment. So here one can speak of a fourth type of development theory. In the "self-employed" sector, the consumption decisions, the investment decision and saving decision are one and the same. They are all combined together in the selfsame household.

There is also a problem that decisions are not taken on the basis of the individual but within a bigger unit of the (extended) family. Even decisions about who should migrate from rural to urban areas is not a decision of the person but is a decision of the whole family. Similarly decisions as to which child should go to school or who should till the farm are made on the family wide basis. Besides, all such investment and saving decisions are taken by the same group of people. Post- Keynesian analysis implies basically that most work involve factory type employment. Wage employment along with the level and rigidity of money wages are critical factors to a great deal of their argument. It is not captured by the neo-classical either. It is captured to a certain extent by the early classical thought. But classical economists were reflecting on the institutional changes taking place in Great Britain in late 18th and early 19th centuries. In classical approach , however, the peasant was a farmer and farmer was a capitalist who employed capital and labour in agricultural production. A farmer could shift his capital from agriculture to industry. And capital moved from industry to agriculture freely especially because fixed capital was relatively unimportant. In the context of self-employment, we are dealing with a situation the early classics did not basically deal with although John Stuart Mill had interesting things to say both on peasant proprietorship and cropping systems. So I would call this kind of an economy a peasant economy and it forms a separate group in development theory, a point that N. Georgescu-Roegen has strongly emphasized. Here a variant of the structuralist form of reasoning is needed

because the typical post-Keynesian policies cannot generate viable solutions. Post-Keynesians would be willing to accept that the rules for price formation in this peasant economy would be different. But their preoccupation is largely with issues such as marketed surplus. However, it can be maintained that major issues pertain more to self consumption. In so far as the economies get commercialised, they develop features where conventional types of reasoning begin to apply.

Let us finally consider the work of Stiglitz, J.R. Harris and M.F. Todaro as examples of applying neo-classical modes of reasoning to problems of peasant economies. They are trying to explain the rigidity of the wages as a part of some kind of optimising decisions. Subsistence wages tend to be rigid. It pays the capitalist, industrial or agricultural, to pay efficient wages which are higher than the conventional wage rate, thereby drawing away labour from selfemployment. The capitalist can do so because there is positive relationship between productivity and the wage rate you pay, at least up to a point. So the whole approach of neo-classical analysis in recent work about agriculture has been to see how this kind of "micro" calculations applies and thereby explain the structure of unemployment. They consider for example the rigidity of the wages not as a social phenomenon but as something determined by subsistence requirements and then be done with it. Furthermore, involuntary unemployment can also arise in such economies primarily because of "malnutrition", a point of view first stated by Leibenstein and recently developed by P.S. Das Gupta and Debraj Ray.

The existing theory so far is quite static. What happens when capital accumulation is introduced? One hypothesis is that capital accumulation is going to lead to shrinking peasant production, a point of view which was much emphasized by European Marxists towards the end of the 19th century. But experience has shown that peasant production may be much more sturdy than that. Neo-classicists would like to use some sophisticated "principal-agent" type of theorizing to issues like this. But they have so far not proceeded far enough. Furthermore, in situations involving share cropping etc., power theoretic relationships are often quite crucial. These have figured quite prominently in numerous Indian discussions of the subject.

It is possible that for throwing further light on problems of a "peasant economy" we have to develop an approach which is something quite new, but encompassed inadequately within the scope of neo-classical, structuralist and post-Keynesian paradigms. I believe that there is great necessity to think through these problems which afflict 70 per cent of the gainfully occupied population of South-Asian societies.¹¹

Conclusion:

What can we conclude about the significance of post-Keynesian approach to development? First of all, post-Keynesians are almost unique in giving a high weightage to the role played by demand factors in the process of economic development. Kaldor was of the opinion that development is seldom supply-constrained in the case of advanced market economies.

While he would have been much more cautious in applying the same diagnosis to less developed market economies, as he was fully aware of the wage-goods constraint, he would have surely dissented from Arthur Lewis in equating savings with investment, almost ex-definitionae, an approach which assumes away the important problems connected with inducement to invest.

Post-Keynesians, including Kaldor, would emphasize that productivity growth could not be explained by means of autonomous shifts in the aggregate production function. In particular, most of them would reject the marginal productivity theory of distribution. It is, however, not the case that they would all agree with the Kaldorian theory of distribution, even though most of them would agree that the propensity to save out of profits significantly exceeds the propensity to save out of wages.

11. For a discussion of approaches which emphasize "Power Theoretic Considerations", see my survey, "Power Structure and Agriucultural Productivity" in Agrarian Power and Agricultural Productivity in South Asia", edited by M. Desai, S.H. Rudolph and Ashok Rudra, University of California Press, Berkeley, 1984.

Post-Keynesians would not disagree with the Lewis position that rules of capitalist logic apply only to the modern industrial sector but some of them would stress the role of increasing returns to scale in industry. Post-Keynesians do not have much to say directly on agriculture, excepting to stress that institutional changes would be essential for sustained growth. But they would all stress the role of marketed surplus of agriculture in determining the rate of growth of industry, in the context of a closed economy and/of a very large sized developing economy.

Thirwall, following the lead given by Kaldor, came to the conclusion that for open economies affected by balance of payments problems, the rate of growth of gross domestic product is determined by the rate of growth of exports divided by the propensity to import. He finds good empirical support for this proposition.¹² But the real problem lies in determining or projecting the propensity to import. It is at this point that structuralist reasoning is very useful in my opinion. The alternative point of view given by neo-classical economics on "setting prices right" seems to have very limited explanatory power.

Structuralists will emphasize more disaggregation of the growth process. Such disaggregation on the production side as well as on the flow of income payments is essential for a more realistic formulation of growth policies.

Finally, we come to the question of technical dynamism. Post-Keynesians strongly emphasize the importance of this factor but they have not so far said anything particularly significant on this set of questions excepting to suggest a la Keynes the role of "animal spirits" or the need to maintain a high level of aggregate demand.

I believe that for getting a better grip on this set of issues, one has to turn to Marx and Schumpeter, which I have tried to discuss in detail in a separate paper.¹³

12. See A.P. Thirwall, "The Balance of Payments Constraint as an Explanation of International Growth Rate Differences". in Banca Nazionale del Lavoro, Vol.32, 1977, pp.45-53.

13. See S. Chakravarty, Alternative Approaches to a Theory of Economic Growth: Marx, Marshall and Schumpeter, Orient Longman, Calcutta & New Delhi, 1982.