

as customs duties and smuggling (p. 124), the Egyptian steel industry (p. 158) and in the whole of Chapter 8 when discussing the principles of fiscal advice to less developed countries.

Unfortunately, the author's analytical equipment is not equal to the task he has set himself. This comes out in the general level of the discussion; one never gets the feeling that a sharp cutting edge is being applied in sorting out the issues. It comes out in a rather uncritical acceptance of a simple causal relationship between physical capital formation and economic growth. It also comes out in specific instances, *e.g.*, in the discussion of export taxes (p. 132), where it seems to be assumed that these will be passed forward on to consumers even under competitive conditions in world markets; on p. 137 it is stated, without explanation, that in a well-developed country, with a sophisticated system of business income taxation, a value-added tax is a retrograde alternative; and on p. 50 the argument is advanced for adopting low capital-labour ratios in developing countries but without any consideration of how capital-output ratios might differ as between the relevant alternative techniques.

These examples could be multiplied. The principle of comparative advantage would have been better served if the author had concentrated much more on the lessons of his own experience rather than on analytical matters with which he was not over-conversant.

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Indian Economic Policy. By B. R. SHENOY. (Bombay: Popular Prakashan, 1968. Pp. xviii + 254. Rs.25.)

The Crisis of Indian Planning. Economic Policy in the 1960's. Edited by P. STREETEN and M. LIPTON. (London: Oxford University Press, for the Royal Institute of International Affairs, 1968. Pp. vii + 416. 75s.)

UNTIL 1964 India's economic performance was generally considered to be striking and her planning techniques to be worthy of emulation by other developing countries. In both respects views have changed dramatically, and the depth of the present disillusionment is proportionate to the exaggerated optimism of the early years.

There are, of course, many objective reasons for this shift of attitudes. It must be admitted that the Indian performance since 1964 has indeed been decelerating. National income has grown less rapidly; the net growth rate of population has shown every sign of continuing increase; the domestic savings rate (long one of India's principal claims to satisfactory domestic effort and performance) has probably become stagnant; aid prospects have distinctly deteriorated, while the repayment burden has risen as a proportion of India's export earnings; and a remarkable trend of price stability has

been interrupted by sharp price increases. The political instability that appears to have afflicted many of India's states since the last General Election also contrasts unfavourably with the sense of direction that the country seemed to enjoy in Nehru's time.

No doubt the two wars, with China in 1962 on the northern frontiers and with Pakistan in 1965 on the western front, and two unprecedented droughts in 1965 and 1966 account for much of the unhappy reversal of India's economic (and political) fortunes. But they have left some permanent impact: in main, a near-doubling of defence expenditure from 1962 to a level of around 4% of India's G.N.P. since 1965. Besides, the unsettling of her smooth trends has led many economists to take a close look at India's economic policies; the result has been a severe shock at the inefficiency hiding behind nearly every policy.

The Streeten-Lipton volume, which contains the papers presented to a conference at the Institute of Development Studies (at Sussex University), is in this genre. Although it was organised around a now-defunct Fourth Plan document, the conference succeeded in bringing together, among others, a number of British social scientists, who appear to have exploited well the opportunity afforded to review India's economic policies in depth in most important sectors, such as agriculture (Lipton), industry (Mirrlees), education (Ovens), population (Cassen) and overheads (Healey and Robinson).

The Streeten-Lipton volume thus has a coherence (despite the multiplicity of its authors) and a scholarly character (despite its focus on the Fourth Plan) which are not shared by the collected essays of Professor Shenoy. These essays range over a wide field, were written over a protracted period of four years, were intended mainly for publication in newspapers and magazines and have been reprinted essentially in the form in which they were originally written. Thus Professor Shenoy's essays do not contain systematically documented arguments or carefully marshalled evidence in support of his views. Indeed, most of the time one finds that strong conclusions have been derived from weak arguments. This, however, is not entirely because of the constraints imposed by the style and the audience chosen by Professor Shenoy; it is also a reflection of the strong ideology of the Friedmannite variety, which prompts and mars much of his writing on economic policy in India. Thus, for example, one can think of several arguments which militate against the grant and use by India of foreign aid since the Second Plan; and these are, in fact, weighed with sophistication by Streeten and Hill in their contribution to the Streeten-Lipton volume. Professor Shenoy, however, prefers to indulge in statements of the following variety:

“Indirectly, aid has fed corruption, extravagant living and the construction of less essential or luxury structures and other urban property; and has provided foreign exchange finance for gold imports,
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smuggled import goods in short supply, and for concealed capital transfers and other illicit remittances abroad" (p. x).

His repeated attempts at proving that P.L.480 imports of foodgrains create inflation (pp. 269–80) are yet another example of his unfortunate tendency to condemn foreign aid (which he shrewdly sees as making the expansion of the public sector relatively more rapid and easy) for the wrong reasons. But when we have made allowance for the tendency to produce non-sequiturs in support of *a priori* conclusions of the Friedmannite variety, there remains much that has relevance to reform of Indian economic policies.

Thus, for example, Professor Shenoy has been among the few economists to notice and condemn the inefficiency of the import control regime (Parts III and IV) and the wastefulness of the detailed control of industrial licensing and production, when in fact it was fashionable and personally rewarding to do otherwise. Moreover, his fears of big Plan outlays, and of the shift to heavy industry in the Second Plan (Part I), while exaggerated and not as well formulated as they could be, have been proven by events to have been not altogether unjustified. But when all his strengths have been noted, and these include exceptional intellectual integrity and a feel for relevant economic problems, the fact remains that his overall view of Indian economic policies is flawed seriously by his antipathy to planning *per se*.

The Streeten–Lipton volume comes much closer to the really relevant critique of Indian planning as practised so far: that it has not looked critically at the numerous choices in different sectors and has instead been confined to broad aggregates and "physical" planning. Thus, Lipton's review of agricultural policies shows up the lack of empirical scrutiny and criteria for selecting the districts for the Intensive Agricultural Area Programme (I.A.A.P.); Ovens' analysis of man-power and educational planning reveals anew the mechanical character of many of the calculations underlying the perspective projections; Cassen highlights the absence of systematic examination of returns to population control programmes, which alone would permit meaningful choice among them and between the best of them and alternative methods of raising *per capita* incomes; and both Ovens and Cassen underline the apparent lack of any integration of the medical–education targets with the population control objectives.

The fundamental thesis that emerges is thus not that India does not need planning but that Indian planning is not as conscious of choices, alternatives, returns and costs as is necessary for efficient planning. This thesis is certainly valid and so well argued here that it cannot be ignored by those willing to learn. But the thesis is also incomplete. The paradox of Indian planning has been that while there has been inadequate planning (which has ignored choices much too much), there has also been excessive planning: an undue attention to detail, an uncontrolled desire to control "scarce" and "basic" resources, a ceaseless ambition to define and regulate the entire topography of

industrial development via product-level targets and a massive bureaucracy. The unfortunate legacy of "Soviet planning methods" to India has not been the shift to heavy industry (which, as Mirrlees rightly emphasises, is hardly debatable, except in terms of orders of magnitude), but the proliferation of centrally determined, mechanically derived, excessively detailed industrial targets propped up by a lethargic and uninformed bureaucracy.

Unfortunately, nowhere in the Streeten-Lipton volume is this deficiency of the Indian planning techniques highlighted as much as it is necessary. Unless this is done, there is real danger that the exhortation to recognise alternatives and choices everywhere is likely to result in yet further proliferation of ill-informed and excessive controls and bureaucratic procedures. The need to economise on scarce administrative resources; the intellectual ability to grasp the enormously limited capacity of economists to work out optimal blueprints of detailed investments in a world characterised by uncertainty and bad information; and the constraints put on implementation of optimal plans by little-understood sociological factors and political pressure groups, are among the principal factors which point to a form of planning where key, efficient decisions are taken in selected areas and the rest is left largely to the market. It is interesting that such ideas find increasing adherents among even the radical planners and economists in India to-day.

Aside from raising these major questions relating to the nature of the planning techniques, the Streeten-Lipton volume contains valuable reviews of many of the principal questions affecting Indian economic performance. Streeten and Hill have a most useful analysis of the impact of foreign aid on the Indian economy, and emerge with the sensible conclusion that India can and should continue absorbing foreign aid. At a time when foreign-aid prospects look bleak and some economists on the "left" argue naïvely that withdrawal of aid would prompt the "vested interests" to reform and move to more domestic effort and socially progressive policies (in symmetry with the "right," who argue that withdrawal of aid will make the Indian Government see the Truth as *they* see it, and thus give up "expensive" public-sector projects and "centralised" planning), tight economic thinking and sensible political prognostication on these vital issues are invaluable. Mirrlees' review of the (then) Fourth Plan targets is valuable within the framework defined by him; and he raises important questions, such as the reinvestment rates of industry, and correctly stresses that physical investment plans need to be backed by taxation to generate the savings—a matter that would hardly need stressing except that, in India, the fallacy that "you cannot eat steel and therefore savings must automatically rise as steel output increases," a brainchild of the Mahalanobis variety of economics, used to be accepted by many economists.

Lipton's paper on the "urban bias" in agricultural planning, practically a monograph, brings together many of the controversies surrounding the questions of agricultural change in India. This stimulating review, however,

shows better grasp of sociological than economic literature in the area. For example, when discussing the agricultural growth in India, in relation to price incentives, there is inadequate distinction between response of a subset of agricultural crops and of the whole set of agricultural crops to price changes; and when the case is made for low price-incentives to Indian agriculture the non-sequitur of Mason is cited in support, namely that fertiliser prices in India have been higher than in Pakistan and have been among the highest in the world. Citing Pakistan in this context is the equivalent of "cultural" anthropology; and the comparison with world prices ignores the fact that, owing to gross overvaluation resulting in high import premia on most goods, non-fertilisers were also presumably highly priced. The relevant questions would have been the degree to which agricultural terms of trade had been depressed relative to world terms of trade (corrected for monopoly power in trade, so as to get the correct opportunity costs) by India's trade and exchange-rate policies; whether such depression, which seems to have undoubtedly occurred, was in fact outweighed by lower burden of agricultural taxation and subsidised inputs of irrigation water (*e.g.*, the D.V.C. complex has not been charging water rates enough to cover its costs); whether *total* agricultural output shows any significant response to such overall terms of trade changes; *and* what would have been the effective way of bringing about such a change in the terms of trade *if*, as seems clear (as in the case of Egypt, studied by Bent Hansen), the motivation behind keeping agricultural (essentially foodgrain) prices depressed was to keep urban consumers placated.

Lipton is stimulating when he brings in sociology: and he has had the advantage of having worked in an Indian village and read much in the area. But his principal thesis that Indian planners betray an urban bias, reflected in the fact that "they tend to neglect the balance of power within villages, and to discuss rural attitudes and behaviour in a rather general and unrealistic way" (p. 84), combines political and sociological insights with a certain degree of naïveté and almost certainly misplaced emphasis. It is certainly true that the Indian planners betray colossal ignorance of agricultural problems, both in their economic and sociological setting, that there is little systematic knowledge and much wishful thinking along *a priori* notions. But these are the symptoms of planning in nearly every Indian sector! If Lipton had examined the working of the public-sector enterprises in industry, if he had looked closely at the working of import and industrial licensing as this reviewer has done recently, if he had asked the Ministry of Commerce whether they had any systematic study of reasons why several firms do not work multiple shifts or why some firms export and others do not or what is the degree of capacity underutilisation in different industries and what could be done to reduce it, he would have discovered an equally abysmal lack of knowledge of how the industrial system works. The basic problem seems to be a certain lack of empiricism in Indian planning *in*

general: a tendency to confuse intention with action, to consider that logic can take the place of observation. The reader might recall how V. S. Naipaul, in *An Area of Darkness*, records his disgust with the sweeper in his Delhi hotel, who leaves the floor dirtier after washing than before, condemning it as "symbolic action." If, therefore, agriculture has been denied its share of resources, and incentives, by Indian planners there is no simple reason such as "urban bias" which is going to *explain* the phenomenon. The dubious nature of some of Lipton's arguments is underlined in particular by his view that the emphasis on the marketed surplus in Indian planning is to be explained by the fact, among others, of the interest of big farmers, with urban connections, in the returns they would get out of the implementation of this economic philosophy. But this view ignores the fact, underlined by Dharm Narain's work, that the smaller farmers also market sizeable shares of production; and it does not attempt to explain why the surplus states have opposed the elimination of food zones, which depress agricultural prices, until recently. Politics and sociology are clearly of great relevance in explaining economic behaviour and in assessing the prospects for success of economic policies; but they have to be used with great care. Lipton has made an important contribution in bringing some of these questions into direct focus; but we still have a long way to go before we truly understand the complex nature of urban-rural, industrial-agricultural socio-economics.

There is much else of interest in the Streeten-Lipton volume. The papers by Cassen on population control and by Ovens on educational planning will particularly repay careful study. The paper by Hanson, on the administrative and political aspects of planning (especially in light of the changed political scene after the last General Election), is a brilliant piece which brings his massive study of Indian planning up to date; and David Pocock writes on the relevance of social anthropology to planning in India with a lucidity and persuasiveness that would convert even the most snobbish economist. All in all, the Streeten-Lipton volume represents a valuable supplement to the analytical literature on the Indian economy, its performance and prospects.

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