# GUNNAR MYRDAL'S SURVEY OF THE PROBLEM OF ECONOMIC DEVELOPMENT IN SOUTH ASIA*

*A review by P. C. Mahalanobis*

The Asian Drama visualised by Gunnar Myrdal turns on the questions : Can the underdeveloped countries of South Asia bring about their industrial revolutions under political democracy ? History does not know of such a transformation. In the industrial revolutions of the West, the democratic principle was always compromised to permit the coercive measures necessary for the adequate accumulation of capital from its principal source : involuntary saving by the population. Coercion supplied by one-party governments has been serving the same essential function in the industrial revolutions now proceeding under Communism. In the "Great Awakening" that came with independence, the nations of South Asia were determined to find another way. They are attempting to achieve economic development through democratic planning.

Myrdal points out that the national liberation movements embraced planning as an idea long before they had won the power to plan. Democratic planning implies acceptance of a matrix of interlocking value premises : national independence; rationality, particularly in the utilization of science and technology for increasing productivity; equity in the sharing of improvements in the level of living in terms of nutrition, housing, health, education and cultural amenities; equality in political status; the civil liberties and the dignity of the individual. The aim, in sum, is industrial revolution without coercion. Myrdal rightly characterizes the popular demand for economic development in South Asia (and, even more, the popular charge to governments to promote development by planning) as "a new event in history".

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This drama involves the lives of some 800 million of the poorest people on earth. Until the present generation, most of the people of South Asia lived in the changeless village world of pre-industrial agriculture. The vision of democratic planning is urged by a small group of political and intellectual leaders of the new nations. "The lofty aspirations of the leading actors", says Myrdal, "are separated by a wide gap from the abysmal reality—including the unreadiness of leaders, followers, and the more inert masses to accept the consequences of attempting to attain these aspirations. And that gap is widening. The movement of the drama is intensified, as, through time, aspirations are inflated further by almost everything that is printed and preached and demonstrated, be it planned or not, while positive achievements lag. Meanwhile, populations are increasing at an ever faster pace making the realization of aspirations still more difficult."

At the outset of this work, Myrdal squarely faces his own involvement in the struggle of South Asia, saying "all of us are participants." He declares that it is necessary "to raise the question of objectivity in research as a problem in logic." Moreover, he insists : "A 'disinterested' social science has never existed and never will exist. For logical reasons, it is impossible. A view presupposes a viewpoint. Research, like every other rationally pursued activity, must have a direction. The viewpoint and the direction are determined by our interest in a matter. Valuations enter into the choice of approach, the selection of problems, the definition of concepts and the gathering of data, and are by no means confined to the practical or political inferences drawn from the theoretical findings."

Accordingly, Myrdal makes his premises explicit in his introduction. They are the value premises of democratic planning, which he sets down in a careful inventory of the "modernization ideals" that have become the official creed of the new nationalism of South Asia. He is thus obliged at the outset to confront a philosophical issue familiar to natural scientists : the uncertainty that arises from the interaction of the observer with the observed.

He finds its resolution in a restatement of the principle of indeterminancy for application to the study of human affairs : "In the classic conception of drama—as in the theoretical phase of a scientific study—the will of the actors was confined in the shackles of determinism. The outcome at the final curtain was predetermined by the opening up of the drama in the first act, accounting for all the conditions and causes of later development... In life, while the drama is still unfolding—as in the practical phase of a study, when policy inferences are drawn from value premises as well as from premises based on empirical evidence—the will is instead assumed to be free, within limits, to choose between alternative courses of action. History, then, is not taken to be predetermined, but within the power of man to shape. And the drama thus conceived is not necessarily a tragedy."

The subtitle of the book—*An Inquiry into the Poverty of Nations*—is an evocation of Adam Smith's title *An Inquiry into the Nature and Causes of the Wealth of Nations,* and it draws the contrast between the expanding horizons of 18th Century Europe and the darkly clouded future of 20th Century South Asia. Coming from Myrdal, the subtitle may also be taken as claiming for this work a place beside the original classic of economics. There can be no doubt that *Asian Drama* is a major work—in three volumes, 2,284 pages, 16 appendixes, a large number of statistical tables and running to more than a million words. It has the flavor of an epic, at a high level of tension when the master himself is zestfully speaking in a torrential outflow of words, ideas and images. The level is somewhat uneven when the associates and apprentices in the school of Myrdal are dealing with particular problems, reporting useful surveys based on painstaking assembly of information from primary sources or detailing technical criticisms of planning policies that are sometimes irrelevant and not uniformly convincing. In this connection, I must confess to a personal involvement in the book, as one who has been associated with the economic planning of India.

Apparently, Myrdal did not set out to write a classic. He started the project in 1957, shortly after a new strategy for

industrialization had been adopted in the Second Five-Year Plan of India (1956–1961), a plan that aroused a good deal of hope at the time. Myrdal made India his headquarters in a mood of optimism. His original intention was to complete the work in two and a half years, as a contribution to current policy-making in the South Asia region. The labour was extended to 10 years. Developments in South Asia were not encouraging. Myrdal became profoundly distressed at the absence of any sign of self-sustaining economic growth in any country in the region, including India, the country that has the strongest base for planning. In order to identify the factors responsible for stagnation, he was obliged to address his great energy and ability to a deeper analysis of the problem. His book is worthy of its title and its subtitle.

Readers will be grateful for Myrdal's comprehensive and empirically balanced statement of his own "institutional" economics and for his decisive rejection of the "modern approach" of the post-Keynesian economists of the West, who have so recently discovered "development" as an object of study. His first task was to destroy the abstract concept of man as an economic automation. *Homo oeconomicus*, if the metaphor may be mixed, is the *deus ex machina* of the determinism—the inexplicit teleology—that pervades the mainstream of classical economics and the rival interpretation of Marxism alike.

In his masterly Appendix 2 ("The Mechanism of Underdevelopment and Development and a Sketch of an Elementary Theory of Planning for Development") Myrdal disposes of the notion that any compulsive mechanism brings economic relations to the "equilibrium of harmony" posited by laissez faire economics or to the "realm of liberty" imagined by doctrinaire Marxists. On the contrary, what Myrdal calls "back-setting" effects tend to overwhelm "spread" effects in the real world. In the absence of intervention from sources of power external to the economic process, the rich become richer and the poor become poorer. Instead of leading to growth by automatic progression from "take-off" to "high mass consumption", as propounded by

"stage-builders" such as W. W. Rostow, the impulses to growth in South Asia tend to damp out in stagnation. As for growth under Communism in the U.S.S.R. and in China, "they have used the government to reshape society, instead of letting society, changed by the modes of production, determine the government." Myrdal cites, supplying the italics, Lenin's famous assertion : "Communism in *Soviet power* plus electricity."

Myrdal's institutional approach goes beyond "output and incomes", "conditions of production" and "levels of living", the headings under which the economic aspects of society are usually abstracted from the rest. The social system for which one would undertake to plan must be understood to involve also such non-economic conditions as "attitudes toward life and work", "institutions" and "policies", including the policies of the plan itself. In South Asia "the interdependence of 'economic' and 'non-economic' factors is much more intensive and consequential" than in Western countries. "Obstacles to rapid economic expansion are formidable and......rooted in the inefficiency, rigidity, and inequality of the established institutions and attitudes, and in the [existing] economic and social power relations." A Plan is "fundamentally a political programme."

Not only the economy, but also the entire social system must be moved forward as a whole. This requires planning. If the planning is to be democratic, then it must proceed, with rationality and humanity, from the value premises announced by the leadership of South Asia and embraced by Myrdal. These affirm, as he observes, the highest aspirations of Western civilization.

India, as the largest country in South Asia and the one best able to claim designation as a parliamentary democracy, engages Myrdal's principal attention. The situation there brings him close to the despairing conclusion that Indian "democracy is not really a vehicle for economic and social change but, for the time being at least, a protection for the *status quo*". The country, he says "is ruled by a select group of upper class citizens who

use their political power to secure their privileged position" over the masses who "are very poor, inarticulate, and split by caste and community allegiances." In particular, the upper classes have appropriated to their own limited number most of the fruits of national economic planning. To this Myrdal adds a perceptive observation : "The explanation of the gulf between ideals and reality is, however, far more complex than simple hypocrisy." The upper classes generally believe in the egalitarian ideals of modernization. In spite of intellectual dishonesty and even plain cheating, the appeal to the masses on the basis of these ideals must have long range impact upon the attitudes of the population as a whole and on the country's political institutions.

The fallibility of conventional economic analysis is clearly exposed by Myrdal's examination of the question of whether the egalitarian ideal of planning in South Asia helps or hinders development. He recalls J. M. Keynes's vivid words to the effect that "it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital" that financed the industrial growth of 19th Century Europe. "Under the spell of the Western practice of treating development as a function of savings, physical investment and output," a conflict between the two goals of development and egalitarianism is often assumed by South Asian planners under the influence of their counselors from the West. Yet in South Asia, particularly in India, where a large part of the population suffers from malnutrition and the lack of elementary health and education facilities, it is plain that "measures that encouraged essential consumption in the lower strata would raise productivity." Planning at a subsistence level in these countries must thus reckon with the turnabout of the ordinary chain of economic cause and effect; increase in consumption can bring about increase in production ! On the other hand, in superficial imitation of the Western countries, labour and welfare measures are sometimes introduced at a cost that the country can ill afford at an early stage.

Myrdal lays great stress on the dictum that "all effective planning is physical planning." By this he means to downgrade the purely fiscal and financial considerations that govern priorities in an advanced economy. He encourages the planners of the developing countries to set aside the criteria of comparative efficiency that rationalize the international division of labour and have served in the past to limit these countries to the supplying of raw commodities to the industrial nations. If appropriate to the total plan, they should not hesitate to build inefficient industries and to protect them by mercantilist measures. Higher costs and inefficiencies are tolerable in such enterprises when they are designed and operated to set off repercussions leading to further growth.

Because I so warmly endorse this approach, I find it difficult to accept criticism of Indian planners, made elsewhere in *Asian Drama,* for not keeping the time-factor in mind and for failing to maintain adequate balances of outputs and inputs in their industrialization scheme. "Physical planning" was the deliberate starting point of the Second Five-Year Plan. The strategy was to establish heavy industries based on energy and steel from India's own resources. These industries were to produce the inputs of machinery, fertiliser, insecticides and the like necessary to increase the productivity of Indian agriculture. It was understood and openly declared that lead-times of 10 or 15 years would have to be accepted before the plan brought results; food grains, fertilizer and machinery to set up fertilizer plants would meanwhile have to be imported. With the watch-word "perspective planning", the plan asserted the claims of the country's long term interests, as against its short-run needs, in the allocation of scarce foreign exchange. Hindsight may indeed reveal many imbalances and, above all, a serious shortfall in the execution of the plan. Nonetheless, the Indian landscape also shows the highly tangible *physical* presence of new steel and heavy engineering establishments.

The wider question of "emphasis on agriculture" in preference to industry that haunts the pages of this book, may reflect Myrdal's

increasing disappointment over the decade of his labour. Fear of hunger has forced human beings to give all possible emphasis to agriculture at all times all over the world; until the very present, men faced the spectre of periodic shortages of food and outright famine. Even in the U.S., it was fear of hunger that led to the creation of the land-grant colleges about 100 years ago. The yield per acre of wheat, barley and maize began to rise significantly in America only as recently as in the mid-1930's. Similar improvements came even later in Europe. In Japan, agriculture contributed only about one percent per year to economic growth between 1875 and 1925.

The reason is easy to discover. The yield per acre or per man-hour can increase only with an increase in the quantity and variety of inputs that become available with the progress of industrialization. In India, as elsewhere, improved implements, fencing, pesticides, fertilizers, tractors, electricity and irrigation facilities must be brought to the villages; the agricultural surplus must be preserved, processed, transported and marketed; credit facilities must be extended for both production and distribution, and so on. Finally, and most important, for effective utilisation of industrial inputs, village habits and psychology must be transformed; the outlook of industrial technology must inculcate interest in tools, gadgetry and new innovations and the desire for skill in using them.

To bring about full industrialization of agriculture in an underdeveloped country will take, possibly, two generations or a period of forty or fifty years. It will, in other words, require a much longer period of time than that required for the establishment of the basic supporting industries. An agricultural surplus is indispensable for industrial progress. An increase of industrial inputs, however, is equally indispensable for agricultural growth. It is simply not possible, in theory or in practice, to give more emphasis to agriculture than to industry. We thus return to Myrdal's essential point : rational planning must move the social system forward as a whole.

I am distressed to find myself in serious disagreement with Myrdal on a narrower, yet crucial, issue in agricultural policy. Myrdal agrees that a radical redistribution of land to agricultural labour would help to advance the dual objective of equity and development. Yet, "as neither the political will nor the administrative resources for ... any fairly effective land reform are present", he advocates, almost in despair, the promotion of "capitalist farming." This would supply preferentially to the larger and more successful cultivators such facilities as credit, improved seed, fertilizers, pesticides, electricity, tractors and other machinery. Just such a preferential supply of industrial inputs in packaged form has been undertaken in several districts in India on a demonstration basis and with some success under sponsorship by the Ford Foundation. In these districts, the top 10 percent of households have become richer during the past 10 or 12 years. The poorer households may not have become poorer in absolute terms, but disparities have increased within the villages. Increase in the marketable surplus has been bought at the prices of increased inequality.

If this were the end of the story, it might be said that the experiment had worked and had set the stage for a new line of policy. There is serious hazard, however, in encouraging selective growth of capitalist agriculture in India. Rich cultivators in a country that is not self-sufficient in foodgrains tend to hoard their grain in years of good harvest and try at all times to maintain and increase prices by restricting production. To offer higher and higher prices for food grains as an incentive to the richer growers is to invite a spiral of inflation. As a result, the agricultural surplus may be reduced in years of good harvest and may vanish in years of shortfall. This has, in fact, been the experience of India, which already suffers from more than enough inequity in the distribution of land and other agricultural resources.

How to increase agricultural production without increasing the price of food grains is perhaps the most difficult problem in Indian planning. One solution, which I put forward some

years ago, is for the government to maintain a buffer-stock of food grains in order to control prices by open-market operations or through physical rationing in years of scarcity. No more than 5 percent of the annual consumption of food grains would be required to lever the price of the entire supply. This policy was adopted by the Government in 1953, but it has not yet been adequately implemented, owing to social and political obstacles as well as to shortfalls in harvests.

In common with other students of development, Myrdal looks for a retardation in the increase of population to speed economic growth. He speaks with approval of the family-planning programs of India. There is no escape from arithmetic : out of the total increase in national product attained during the first two Five-Year Plans, from 1950 to 1961, half went to give new additions to the population the same per capita consumption as the population had had at the beginning of the period, and only half of the gain was available to increase the per capita income of the larger 1960-61 population. It is necessary, however, to recognise that there is no evidence of any scientific value to show that the effort to promote birth control in India has any short-term effect in either increasing the use of contraceptives or reducing the birth rate. In any population, the birth rate is the resultant of the interplay of complex social, economic, political and psychological factors. There is some evidence to show that, in India, improvements in the level of living have a retarding effect on the birth rate. Rapid industrialization, with increase of income and urbanisation, may in the long run be the most effective means of reducing the rate of growth of population.

I venture now an elaboration of Myrdal's institutional approach to development. To the "non-economic" conditions that must be reckoned with the planning I would add "science and technology". Reference is made, of course, to science and technology throughout the book; they enter Myrdal's institutional scheme as elements in "conditions of production" and in "attitudes toward life and work". In South Asia, however, one sees the world as

it was 400 years ago and so one can sense more vividly the difference that science and technology make in the nature of human existence.

Before the emergence of science, there were only two domains of decision in organized society. There was, first, as there always will be, individual choice—of food, clothing, habitation, recreation, art, literature, values—within the limits of social constraint and the availability of supplies. There was, second, the domain of authority, in which the nature and force of sanction depend on the level of authority in a hierarchy determined by custom, law or religion. With the emergence of science, the human mind became aware of "nature" as an objective reality amenable to human understanding by observation and experiment. The crucial point is that such observation and the inferences drawn therefrom by one person—and so, in one sense, subjective to that person's experience—may be repeated and verified by others. Such inter-personal (or inter-subjective) agreement requires the acceptance, in principle, of interpersonal parity. Science thus introduces into human affairs a new third domain of objective reality, which cannot be changed by any authority, however high its status, nor by personal choice or preference. This was the nature of the turning point reached by the history of civilization 400 years ago.

The transformation of the advanced, and still rapidly advancing, countries has been brought about by the acceptance of the scientific and rational view of life and nature. In these countries, the scientific view has permeated in large measure the administrative organization, tempering the outlook of individual administrators and executives and increasing their ability to make responsible decisions, particularly at the lower levels of the hierarchy of authority. This is the foundation of the modern age. C. E. Ayres, in his *Theory of Economic Progress*, makes the point sharply : "The power which ideas exert by virtue of being correct is a function not of mind over matter but of technology over institutions in the long-run process of social change".

Myrdal makes an observation that deserves consideration in the present context: "The Western experience of scientific, technological, and economic advance may well be unique: a series of extraordinary circumstances seems to account for a cumulative process of development in Western history." It is scarcely possible to accept this suggestion. Japan has reached a high level of scientific and technological achievement and is developing very fast. In China also, distinguished Western scientists agree, there has been steady progress in scientific research and technology. What is more, China seems already to have reached the stage of self-sustaining growth. Scientists from India, Pakistan and other underdeveloped countries have made significant contributions to science and technology. Inborn talent is not lacking in these countries, and Myrdal surely intended no such inference. What is lacking for the present, at least, is institutional support and ability to recognise talent.

The position of science and technology in India illustrates the situation. On the foundations established during British rule, independence brought rapid expansion of higher education and technical training. India now has a large stock of scientific and technical personnel; expenditure on research and development is increasing possibly at the rate of 20 percent or more per year at current prices. Yet science and technology remain in India the captives of an outmoded governmental administration whose main task continues to be the collection of taxes and the maintenance of law and order in much the same way that this system served the British raj. The authoritarian principle remains strong in the Indian bureaucracy; decisions continue to be made on the basis of rules, precedents and authority instead of on the rational test of objective validity.

The progress of industrialization in India—and in other countries in South Asia—is likely to be retarded until a radical transformation of the social structure allows and encourages the growth of science. This is plainly the conclusion indicated by Myrdal's institutional approach to economic development,

amended here to give full recognition to science and technology as essential pre-conditions of development.

Nonetheless, I find evidence that India is moving forward. Indian planning has started the process of industrialization in a way that cannot be reversed. Industries are expanding. Heavy-machine-building complexes have made slow progress but will soon be turning out machinery for the production of steel, electricity, fertilizers and other inputs to promote industrial and agricultural development. It should then be possible to put up new plants built to a large extent around machinery produced in India.

The benefits of industrialization have started reaching rural areas. New industrial towns are being established and are changing the character of their surrounding countryside. The supply of technical inputs to agriculture is increasing. The interlocking and reciprocal feedback between agriculture and industry, once it reaches the critical level, will carry the country a long step toward self-sustaining growth.

Conditions in India, I believe, are ripe for modernization. The infra-structure is ready for the "big push". Myrdal, along with other students of development, concludes that "underdeveloped countries cannot rely on a 'gradualist' approach... [The] very idea that planning is needed to start development, and that market forces by themselves cannot do it, implies the thesis of the big push." To generate and sustain this crisis in the growth process requires "not only that the efforts have to be larger than a critical minimum, but also that they must be directed simultaneously at a great number of conditions, concentrated within a short period of time, and applied in a rationally coordinated way."

As one of the somber conclusions of this book, Myrdal confesses his doubt that the indigenous governments of South Asia, much as they fall short in implementation of the democratic ideal, are equal to the task of generating the big push. Those governments, he says, are "soft" for lack of sufficient social discipline,

particularly among the ruling classes. Their fate and the destiny of the entire region may hang on external forces generated by the recurrent competition of the two superpowers, to be joined soon, perhaps, by China. If political democracy must fail in India, Myrdal thinks there is a greater chance of takeover by a coalition of military officers, higher civil servants and businessmen, than of one by Communists, at least in the near future.

From within the country, I would judge that such a development would bring no necessary improvement in India's prospects for economic growth. Pakistan did not approach any closer to the big push under Ayub Khan. In India it would be even more difficult to set up a military dictatorship; such a regime would not be viable because the armed forces are not homogeneous with respect of language, religion and community, and also because of the political maturity of the people. I still feel that Indian development may enter the big-push phase under parliamentary democracy. If there is a failure of top leadership, owing to betrayal by the intellectual elite who form the ruling classes, the country may have to go through a period of dissensions, increasing frustration, disorder or violence until a strong government is firmly established with a progressive modernization program. The time has not yet come, however, to despair of India's continued effort to set a new example in world affairs : the achievement of an industrial revolution without violence or coercion.

I have expressed my views frankly. This is the best way I can think of to pay homage to a great man who has written a great book with the highest intellectual integrity and with intense sympathy and anguish for the fate of the one-fourth of the world's people who live in South Asia.

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