In the Poorer Two-thirds ...


In the last few years we have had a spate of books on the economic problems of underdeveloped countries. The latest publication on the subject is by Prof Ragnar Nurkse of the Columbia University. Students of economics remember Prof Nurkse as the author of the excellent League of Nations publication entitled International Currency Experience. The present work of his maintains the same, standard of excellence. This is a refreshingily down to earth study. It has also an extremely sympathetic approach to the problems of underdeveloped economies, though it is forthright in stating the case for self-help. Here is a book which is of great use both to the academic economist and the policy maker. Here and there Prof Nurkse makes penetrating and wise remarks about several outstanding economic issues, most of which it is hard to disagree with.

Although the book is mainly a collection of lectures delivered in Brazil and Egypt, and some repetition is therefore unavoidable, the author has succeeded in presenting a comprehensive and self-contained theme about capital formation in underdeveloped countries. He has covered both the domestic and the international aspects of development.

Prof Nurkse first discusses the inducement to invest and in this connection he lays great stress on the smallness of the size of the market in the underdeveloped countries as constituting an important limitation to investment. The solution for this is the synchronised application of capital to a wide variety of projects. Though this idea of a balanced growth has received great attention in underdeveloped countries, Prof Nurkse's emphasis is nonetheless welcome. He also thinks that for this purpose central direction of the economy may be called for.

On the whole, Prof Nurkse is not worried about the demand side of investment. In particular, he feels that it is unlikely that there will be any persistent deflationary gap in underdeveloped countries. On the other hand, he is more worried about the supply side. This is mainly because of the high propensity to consume, which, in his opinion, will persist even in higher levels of income largely because of what he calls the 'demonstration effect', that is, of the desire to follow the consumption habits of advanced countries and of people in the higher income in the same country. Indeed, according to Prof Nurkse, this also explains persistent balance of payments deficits. However, this does not appear to have been true of the pre-war years when most of the underdeveloped countries did have a considerable surplus on the trade account.

Prof Nurkse discusses at great length the external aspects of capital formation. He finds great justification for the preponderance of foreign investment in industries catering to the export markets, mainly on the ground that the domestic market is narrow. However, he feels, and perhaps rightly, that there has been a tendency to overlook the fact that a considerable proportion of foreign investment did go into domestic uses. This is especially so in the case of capital that was raised abroad by Governments. Such foreign capital has been put to uses like transport and power development. The limited size of the domestic market is also due to the inadequate investment in 'social overhead' capital. However, even the colonial type of investment has decreased considerably in the post-war years. Among other things, Prof Nurkse mentions the low tempo of secular expansion of the export of primary commodities in relation to the economic growth in developed countries as a contributory factor. He is certainly in sympathy with a larger volume of gifts being made by the developed to underdeveloped countries but is afraid that there is a danger of these going to satisfy consumption rather than investment.

The author discusses at great length restrictions on imports as an aid to domestic, capital formation. He concedes that such restrictions will create the necessary atmosphere for greater capital formation to take place. But he feels that the stimulus of restrictions may not last long, unless simultaneously steps are taken to achieve a diversified growth of the economy. He is not worried if in the process of domestic economic development the volume of foreign trade declines, for he says rightly that income is a more basic criterion of prosperity than volume of international trade.

Prof Nurkse, however, is very sceptical of the restrictions on imports of luxury goods as a means of promoting domestic savings because there is a likelihood that consumption will shift from imports to domestic goods and in the absence of proper Government control, there is a danger of its being diverted to unessential purposes.

Great stress has been laid on domestic action as being most essential for achieving larger capital formation and economic development and in this connection Prof Nurkse attaches great importance to the role of public finance. He stresses the need for taxation being used to bring about compulsory savings since otherwise savings would be low on account of the high propensity to consume. He does not attach importance to the view that taxation as an instrument of saving would be ineffective since it would produce adverse effects on voluntary saving. This is because in underdeveloped countries voluntary saving is at present very low. As Prof Nurkse says, the appeal to spare the goose that lays the golden eggs is not very strong when the goose is not laying many eggs of any kind. This does not, however, mean that incentive should not be given for the private sector to save. Prof Nurkse is of the view that taxation should not be on personal income but rather on expenditure. The reviewer gathers the impression that the author does not object to a little dose of deficit financing.

Prof Nurkse makes a very valuable suggestion which in the opinion of the reviewer has not received adequate attention. While the state through taxation makes a decision to save, it need not necessarily invest the funds so raised. In other words, a part of the funds could be put at the disposal of the private sector through a variety of ways.

There is one field wherein Prof Nurkse feels that there is great
scope for Government to act and that is in the building up of "social overhead capital" like transport services, power plants, schools and hospitals.

He also devotes a whole chapter to the presence of disguised underemployment in underdeveloped countries which constitutes a great saving potential. In the mobilisation of this saving potential, the author thinks that some form of state action is indispensable.

Prof Nurkse attaches great importance to the role of what may be called mixed enterprise, that is a combination of private and Government enterprise, in the field of saving and investment. He also says that this mixture should be worked out by each country with reference to its own peculiar needs and opportunities.

Prof Nurkse ends his book with a brief reference to the sociological aspects of economic development, which have been receiving increasing attention everywhere. That is to say, economic development partly depends upon the quality of the people, their personal habits and trades and the degree of capital consciousness that prevail. In other words, the economic advancement of the backward countries is far more than an economic problem.

After reading Prof Nurkse's book one feels satisfied that the trend of official thinking in India on economic development, especially that of the Planning Commission, is by and large on sound lines. What is now needed is the courage of conviction to translate into greater action the objectives of the plan.

### Bombay State Financial Corp

Following the States of Punjab, Saurashtra and Travancore-Cochin the Bombay Government has set up the State Financial Corporation under the State Financial Corporation Act 1951. This Act was passed to enable the States to establish its own Finance Corporations (on the lines of Industrial Finance Corporation) to give financial aid to small and medium-scale industries.

Like its counterparts in other States, the authorised capital of the Corporation is Rs 2 crores. Only Rs 1 crore has been issued which is divided into one lakh shares of Rs 100 each. Rs 25 for each share will be called with the application and Rs 75 on allotment. The distribution of share capital will be 31 per cent for Bombay Government, 20 per cent for Reserve Bank of India, 44 per cent for schedule banks, insurance companies, co-operative banks, and other financial institutions and 5 per cent by others including private individuals. Bombay Government has guaranteed the dividend of 3½ per cent and has also put dividend upper limit at 5 per cent. This may not compare very favourably with the current net yield of 4.31 per cent and 5.45 per cent respectively on the Imperial Bank and Central Bank shares. But in spite of limited marketability and return of the shares, it is almost certain that the shares will be fully subscribed due to new floatation techniques.

The Board of Directors will consist of nine members (excluding the Managing Director). Membership will be divided as follows: three Dominated by the Bombay Government, one by the Reserve Bank of India, one by the Industrial Finance Corporation, one each to be elected by the schedule banks, co-operative banks and remaining financial institutions and one by other shareholders. Interim arrangements of nominating directors have been made by the Bombay Government.