Non-Monetized Economy and Development

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The non-monetized sector is only remotely connected with the process of accumulation. It should, therefore, be excluded from national income estimates to make them more meaningful in relation to economic growth.

A non-monetized sector is largely an unorganised sector. We are not here referring to organization in its broad sociological sense - custom may be an important factor in setting the pattern of social organisation. We mean by organisation economic organisation. This lack of organisation stems from the very inadequate development of social division of labour and the emergence of the related phenomenon of commodity-production. Market as an economic institution has therefore only a very limited scope. If market for commodities hardly exists, it would surely be out of the question to postulate a market for assets. Accumulation, under the circumstances, is not possible for to store things having no universally recognised common denominator and having no opportunity of exchanging negotiable assets (if there be any) against goods is not a meaningful economic activity.

A non-monetized economy, therefore, implies little or no capacity for accumulation and consequently, little or no possibility of changing the technique of production for initiating a rise in the level of productivity.

What happens when this non-monetized sector is placed vis-a-vis a money-economy? There is no doubt that money infiltrates into this sector. But this infiltration in itself is not significant for the dissolution of the non-monetized economy. If people start using money having no 'circulation sense', that does not lead to the gradual emergence of a really monetized economy. In most cases, it gives birth to an usurious economy, which clings like a parasite to a predominantly non-money economy. One can notice this phenomenon acutely in what fire believed to be the non-monetized parts of our own economy. The fact of the matter is that, money has no inner dynamic of its own so that we have an ever-expanding money economy unless perfect differentiation of economic functions. This imperfect functional differentiation in turn is due to the prevalence of pre-capitalist relationships. As such, the notion of self-sufficiency in the meaningful sense is subsumed in our definition of non-monetization.
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money is utilised as money-capital in the process of production itself. That means unless the infiltration of money into a non-money economy is accompanied by the emergence of capitalist relationships, we get only a very partially monetized sector where only a small proportion of total output is exchanged against money.

The fact that we have such a wide non-monetized sector in India at bottom due to the tardy development of capitalist relationships in this country. Non-monetization is only a subsidiary characteristic of pre-capitalist relationships. It is, of course, not suggested that for purposes of economic development, contraction of non-monetized sector or the emergence of a capitalist economy is either inevitable or desirable. Our discussion relates only to the implication of a non-monetized sector.

The above discussion has certain interesting implications. One particularly obvious policy implication is connected with the question of deficit spending. Creating new money need not necessarily lead to as high an increase in prices as may be expected on ordinary considerations since the ratio of the total value of final transactions in terms of money to the total national output is expected to rise. On this point, the Japanese experience during the late 19th century following the Meiji restoration is quite relevant.

Apart from this above all-too-apparent implication, we have some other interesting implications. They relate to the concept of national income and the use to be made of national income data.

The valuation of the total net output of the non-monetized sector raises all sorts of awkward questions. The current practice of accounting has its theoretical basis in the neo-classical approach to the economic problem, viz., the satisfaction of consumer's needs with scarce resources. From that point of view, there is no other logical way out but to include the output of the non-monetized sector in the total national output. But that does not solve any of the complicated questions that arise in this connection: How are we to ascertain the total output? How are we to 'net' it? Which set of prices are we to employ for converting the heterogeneous collection of items into a homogeneous mass? The general practice is to evaluate them at prices ruling in the monetized market-bound economy. But which set of prices: wholesale or retail?

Prof. Kuznets suggests that they should be valued at retail prices. In order that due account may be taken of those services usually performed in peasant households, but which are customarily discharged in developed economies by 'specialised institutions. This suggestion may be quite significant for the problem of making detailed comparisons between industrial and pre-industrial economies. But it is difficult to see how it solves the basic problem of the meaningfulness of totals as arrived at as indications of economic welfare. This is the point that has been raised by Prof. Frankel. On the basis of neo-classical reasoning, which provides the theoretical scaffolding to the current practice of calculating national income, it can hardly be denied that in applying the techniques of national income accounting to the non-monetized parts of the economy, there is generally a passage, not too legitimate, from one set of logical categories to another.

But the whole problem looks altogether different if our central (jii-jiesitum) is economic growth. As we have already seen, the categories of accumulation fit awkwardly into the scheme of an economy where the characteristics of money are so diffuse. In this sector, the surplus of production above consumption, if there be any, is a physical surplus and not an economic surplus for the value categories are singularly inappropriate in this context. As such, the question of the productive deployment of this surplus does not arise. Now, if our purpose is to find out a concept of national income which may be used as an index of economic growth, we need consider only such sectors of the economy as employ reproducible Capital and as augment the total stock of reproducible Capital in the process of accumulation. So far as the non-monetized sector is concerned, it does not face the above test. As such, it cannot logically form a component of a growth-oriented national income total. Estimates of national income, like the G.N.P., etc., which attempt to include the non-monetized sector, stand on an altogether different conceptual footing from the approach here suggested.

Supposing, however, that the current practice is unobjectionable, it is easy to see that it makes models of economic growth based on postulated relationships between income, investment and savings extremely precarious. If one leaves out the savings question altogether, and concentrates merely on the investment-income relationships, one is dealing with an incomplete description of economic reality. Because in such models as these, the demand aspect of the question is totally ignored. If the economy is centrally planned, we may have some justification for assuming away the worries of a deficient or excessive effective demand but talking about a mixed economy, one realizes at every step the inadequacy of a model of economic development having no demand component.

For accommodating demand aspects, we have to introduce savings explicitly into the picture. But how stable is the savings-income relationship in an economy having such a wide non-monetized sector? In truth, the process of economic development implies in itself a varying coverage of the non-monetized sector. As such, it will automatically lead to discrepancies between the postulated savings-ratios and actual savings ratios. From the mathematical point of view, we may be in a position to employ some more forbidding techniques to take account of the situation but, in practice, the models reduce themselves to empty formalisms. To be on such grounds, we must be in a position to relate the changes in savings-ratio to changes in the nature and extent of the non-monetized sector. But in the nature of the case, it is difficult to establish any precise relationships. Should we then break up total savings into two components: monetized and non-monetized? This procedure is not meaningful either for the non-monetized sector is not accumulation-oriented, as we have seen.

The way out of the impasse appears to be in adopting a definition of national income that comprises only such sectors as are directly relevant from the point of view of economic development. Sectors which are remotely connected with the process of accumulation viz. the non-monetized sector, will be automatically left out. The result will be a loss in the comprehensiveness of the totals arrived at but this loss will be more than compensated by the greater accuracy of the relevant data as well as by the heightened meaningfulness of the economic magnitudes involved.
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