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LATIN AMERICAN AND INDIAN POLITICAL ECONOMY COMPARED:
SOME COMPARISONS DERIVED FROM K.B. GRIFFIN'S
"REFLECTIONS ON LATIN AMERICAN DEVELOPMENT"

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ABSTRACT

These comments on K. B. Griffin's earlier article, "Reflections on Latin American Development", compare the political economy of growth in Latin America, as outlined by Griffin, with the political economy of growth in India.

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"REFLECTIONS ON LATIN AMERICAN DEVELOPMENT"¹

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INTRODUCTION

Keith Griffin's article in the March 1966 issue of your magazine² is a most interesting one because of its examination of the political economy of Latin American development and the implicit model that he presents of the relationship between social, economic and political factors on that continent. The purpose of this comment is not to criticize either his interpretation of facts, his analysis, or his policy conclusions, any or all of which may be open to criticism by those who know more of Latin America than I do, but rather to make a comparison between his model of the interrelationship between politics

¹This paper has benefited greatly by criticism offered of an early draft by my colleague, John Enos, who has the unusual combination of a knowledge of both India and Latin America. I, however, am fully responsible for this final version.

²K.B. Griffin, "Reflections on Latin American Development," Oxford Economic Papers, Vol. XVIII, No. 1 (March 1966), pp. 1-18.

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and economics and the implications he derives from that for Latin America, and the political economy of India, on which I have just published a volume.³ I am making such a preliminary comparison because I feel that greater knowledge of the interrelationship of social, economic and political elements in the development process is essential to both better understanding of, and to better predict, the course of the entire process of economic change in the developing countries. Comparative analysis contributes to greater understanding and possibly improved forecasting. This first attempt at comparison may stimulate and assist similar work based on the experience, either past or present, of other countries. In this paper I will first summarize what I consider the implicit model whose elements are scattered within Griffin's reflections on Latin America; I will then present a model of Indian political and economic change. Finally, I will point out what appear to me to be similarities and differences between the two models.

II. GRIFFIN'S MODEL OF LATIN AMERICA

Griffin presents a two-sector model of the Latin American economy. One sector, by far the largest, is the rural, agricultural sector; the second sector is the urban sector, containing industry, government and services.

Within the rural sector there are three major groups: the large landowners, who are relatively small in number but who own a very large

³G. Rosen, Democracy and Economic Change in India, University of California Press and Cambridge University Press, Berkeley, California and London, 1966.

proportion of the agricultural land and are the leaders of Latin American society; the small landowners or tenants with holdings of less than five acres; and the landless laborers. The latter two groups farm only a small proportion of the land but contain the great proportion of the farm population.⁴ The interests of these groups are in conflict. Essentially, the first group controls the land and the capital needed to farm the land, and has a traditional right to free labor from tenants and laborers. It also has the ability, based on monopoly power, to charge a very high rate on the capital it supplies to the small landowner or tenant, and to keep the wages it pays to the laborer very low. As a result of these powers it reaps very high profits, both absolutely and as a percentage of income (and presumably on its investment). The other two groups are exploited by the first one, earn very low returns from their labor, have no access to education or other opportunities for self-improvement, and therefore lack either the ability or incentive to raise the productivity of their land and thus increase their incomes. At the same time, the large landowners receive such high returns from the present system that they also have no incentive to introduce technological or social changes to raise productivity in the rural sector since these might threaten their social position as well as their already high economic benefits.

In fact, the large landowners are in general absentee landowners living in the urban areas. Rather than reinvesting their profits in the rural areas, they invest their earnings from the rural area into

⁴The data presented in Griffin's article are very spotty and based on only one or two countries. From the title, however, I assume that he considers these as representative of the entire continent.

urban industries -- small consumer goods industries, or satellite factories to large foreign and government-managed enterprises; otherwise they may spend these earnings in conspicuous urban consumption requiring urban services (or presumably export them to Europe). This drain from the rural to urban areas is manifested by a continued surplus on current account from the rural to urban areas and a large deficit on capital account. The effect is not only to maintain low rural incomes but to further impoverish the people in the rural areas from which capital flows, and where Griffin feels the investment would be more desirable (it is not clear whether for ethical or economic reasons).⁵

Within urban Latin America there are also many groups in various forms of conflict with other elements in society. Griffin does not go into these in any detail, but rather indicates them. There is, of course, the conflict between the urban middlemen and the small peasants, since the peasants must sell their output to, and buy their inputs from, these middlemen. The urban industrialists demand protection for their new industries, which may be against the at least short-term interests of other rural and urban groups if these latter must now pay higher prices than previously for industrial products. Among the urban employees and workers, too, there is no unity -- rather there are sharp distinctions and conflicts of interest between middle class educated white collar employees or self-employed, including members of the civil service and professionals, and the laborers; within the laboring groups

⁵It is not clear from the analysis why such urban investment need be economically undesirable if it provides urban employment for a labor force that is surplus in the rural area.

there are differences and conflicts between the organized and more skilled factory workers (frequently employed at relatively high wages in foreign-owned enterprises) and the unorganized workers, recently migrated from rural areas with little or no skills, and employed in low-wage service trades or small-scale shops, if not totally unemployed.

Recognizing these conflicts of interest among the various groups, Griffin stresses the need for the formation of new coalitions to strengthen the political bargaining power of the weaker groups. The first aim of these new coalitions should be to introduce legislation and actions to directly raise productivity and incomes in the rural sector. Griffin suggests what he regards as appropriate policies to free the small peasant and landless laborer from the grip of the large absentee landlord, as well as to take the further steps in land and tenure reform that would improve the position of the peasant and raise both his incentive and his capacity to increase his productivity from the land. But Griffin doubts that this coalition will be formed or the appropriate policies be adopted, since the urban middle classes and organized trade unionists who play the major political role in reform parties are not interested in steps to improve the position of the peasants -- they are interested in improving their own urban position in relation to the absentee landowners who now control political power in Latin America.

III. THE POLITICAL ECONOMY OF INDIA⁶

As in Latin America the key distinction within Indian society is the division between rural and urban sectors. Within the rural sectors

⁶The analysis that follows is based on my book, see Footnote 3, above. The figures on landholding in the next paragraph are derived from Table 3, page 32, of the book.

the caste system provides a framework for analyzing the interaction of political and economic power and change; within the urban areas caste has more or less broken down as a basis of the social system, and has been largely replaced by class relationships centered around the economic factors of control over capital and the income derived from this. However, class elements have been playing a larger role in rural society than earlier, while caste and communal elements continue to play a role in the urban social structure.

Traditionally, local economic and political power in the rural areas was largely concentrated in the hands of the members of the dominant caste -- a relatively high caste that owned the land, that had rights to traditional services (in exchange for certain traditional obligations), and that had a high ritual position. Below members of this caste were smaller landowners and tenants who might be members of other castes, and the "clean" service castes. These "clean" castes could improve their social and economic position within the caste system. However, at the bottom of this system were the "unclean" castes, in many cases former slave groups, who had to go out of the caste system and appeal to foreign laws or take political action for any improvement in their social status. While land was not distributed equally even before the land reforms, the distribution of land ownership was far wider than in Latin America (as shown in p. 11 of Griffin's article). In 1950/51 in India, before land reforms became effective, while slightly over 50% of the farm population held less than 5 acres and farmed 17% of India's total acreage, approximately 40% of the farm population had holdings of from 5-30 acres and farmed about 55% of the total acreage;

while the top 5% of the farm population with holdings above 30 acres farmed 20-25% of the total acreage. Thus in India's large population in 1940-50 there were large numbers of people with significant landholdings, even if they might not be of the highest caste position or in the upper economic class.

In urban society the dominant elements before Independence were the British rulers allied with elements of Indian absentee landlord groups, many of whom were now settled in urban areas in high professional and government positions. There were also indigenous Indian middle class groups: entrepreneur and manager groups, high level Indian civil servants and intellectuals in the upper middle class; Indian clerks, lower government officials, shopkeepers and similar groups in the lower middle class. In the urban working class there was an organized factory labor force and the lower wage, unorganized, unskilled, often unemployed rural migrant labor force.

The Congress Movement for independence, under Gandhi, effectively united certain of the Indian urban elements in both the big cities and smaller towns (especially the middle class professional, intellectual and entrepreneur groups who had no political power under the British, but also factory labor which became unionized) with elements of the rural population, appealing with special effectiveness to peasants with land holdings of medium size (below 30 acres), non-Brahmin castes, and even to some of the untouchables.

The departure of the British and the subsequent introduction of democracy with universal suffrage was a political revolution in India. The British political leaders departed, as did many Muslims; the princely

states were integrated into India and the princes lost their political power; many of the absentee landowners, living in the cities and in high professional positions, who had been associated with the British socially and politically, also lost political power and influence.

Meanwhile the Congress changed from an anti-government agitational movement into a governing political party. With this change at least some of the urban elements associated with the movement dropped out -- most notably many of the intellectuals, and groups committed to ideologies, whether of a religious nature or of a more revolutionary nature. Some of the intellectuals, especially Prime Minister Nehru, remained within the Congress Party, which remained a coalition, but within this power shifted relatively to those rural groups which, in their areas, had large numbers to vote and some economic power, and thus had something to lose or gain by political power; and in urban areas to entrepreneurial and managerial groups who also had something to lose or gain by political power, and who had financial resources to support the party.

The effect of this change was a political coalition that was committed to, and did take certain economic policy steps. One of the first steps taken by the Congress Party after Independence was the initiation of land reform legislation in the states -- steps were taken to abolish at least one level of intermediaries, the zamindars, where they existed; to set limits on the size of landholdings, and to reform tenure rights. While it has taken time for these laws to be passed and enforced there had in fact been some change in the pattern of landownership compared to the earlier period, and the larger landowners with holdings above

30 acres lost some of their land and a great deal of their political and social power. Perhaps of equal importance has been the abolition of one of the main props of the traditional system of economic relationships on the land -- the right of a landowner to demand free labor from other peasants in the village; and the abolition of this right has been enforced. Similarly the legal foundations of "untouchability" were eliminated, and steps were taken to improve the social and economic position of these lowest castes.

These basic reforms were made possible by the previously noted loss of political power on the part of the formerly dominant castes and ruling groups associated with the British, and by the shift of power within the Congress. The effect of the departure of the British, the rise of the Congress Party, and the introduction of a democracy with universal suffrage, was a creation of a new coalition of the large number of small and medium-sized peasant landowners who had not been associated with the British and who would gain by the reforms, and the urban groups who favored land reforms and an improvement in the position of the lower castes. These economic gains have not benefited the landless laborers of the lower castes to any great degree, but these lowest castes have exerted some political pressure for social reforms, especially for the extension of education, and this may be expected to have significant future economic effects. A major vehicle for the exercise of political influence by the rural groups and middle class urban groups have been caste and communal associations, which both high and low castes have set up in large numbers.

The shift in political power to peasants with medium-size holdings has, of course, had other economic policy consequences. Land reform has probably proceeded as far as it will go, unless a continued shift in power occurs to other elements in society. Perhaps even more important in the longer-run Indian development context is the effect on the ability of the government to raise resources: it has not been possible to raise direct taxes on the peasants, or to charge prices for the output of the new investments in irrigation and power plants in rural areas that would permit an economic return on the investment. The result has been a large and continued outflow of resources, through the government revenue and expenditure system, from the urban to the rural sector. The consequence is that in spite of the accelerated rate of growth of national income in India during the 1950-60 period, there has still been only a small change in the structure of the Indian economy, as measured by the proportion of workers engaged in industry, the proportion of national income derived from non-agricultural activities, and the proportion of the country's capital stock in the non-agricultural sector. At the same time it is important to recognize that the flow of resources into the agricultural sector of India unquestionably contributed to the political stability of the Indian society during the past decade, and to at least some of the increase in agricultural output that did occur.

If one accepts, as I do, the necessity for a change in the structure of the Indian economy toward industry, the slowness of this shift in the past is a cause of worry. I would argue furthermore that unless in the future there is a more rapid absorption of India's growing labor

force into industrial or service employment than has occurred in the past, there may be serious future political consequences; and that continued investment in the agricultural sector per se, of the same type as in the past, especially that occurring in the form of large-scale irrigation works, probably has a very low rate of return and in general should have low priority. This is not to deny that increasing farm output is a major requirement of the Indian economy, but that it can be achieved in the future by other policies than have been tried in the past, and in closer association with industrial output of manufactured inputs and consumer goods for the rural market. The formulation and adoption of these policies call for a new set of ideas, and other political coalitions than have served India well in the past; the formation of such coalitions may be occurring now within the Congress Party with a new generation of leaders and new pressures.

IV. COMPARISON OF THE LATIN AMERICAN SCENE AND THE INDIAN SCENE

I will briefly bring this to a close by pointing out some of the differences and similarities between Griffin's view of Latin America and my model of India.

The major similarity is the two sector character of our models -- rural and urban. There is also a major similarity on the stress of the importance of rural-urban resource flows. Finally, there is a stress upon the importance of coalition forming and bargaining groups.

There are also differences. First, in India caste and other ethnic-communal factors are an important element in rural society and politics, and in fact provide a vehicle within which democracy functions. I am struck by the absence of such elements in Griffin's analysis of Latin American society, and would in fact have expected them to play a greater

role with, for example, the differences between Indian and Spanish ethnic groups.

Second, in India there has never been the concentration of land-ownership in a very few hands that characterizes the Latin-American scene.

Third, in India the Congress Movement, as a result of Gandhi's leadership, appealed to and permitted the exercise of influence by rural groups, long before Independence. Such a political movement apparently does not exist in Latin America, where the reform parties are almost entirely urban-based.

Fourth, with the departure of the British, the partition of the subcontinent, and the introduction of democracy with universal suffrage, India clearly went through a major political upheaval that resulted in the Congress Party taking power. This had the consequence of increasing the political power of new and large, but still limited, rural groups within the coalition that is the Congress Party.

Fifth, Griffin argues that there has been a continued outflow of resources from the rural regions to the urban regions and this both widens the disparity between rural and urban incomes, and makes it very difficult to raise agricultural output. Griffin argues that this outflow reflects the great concentration of land ownership in Latin America, and the absentee character of this ownership. In the Indian case the shift in political power to rural elements in the society has led to an increased flow of resources from the urban to the rural areas, and thus to a pace of industrial growth that I would argue is slower than is desirable. At the same time because of the

character of the rural investment, and the lack of other appropriate policies not calling for large investment, agricultural output has not increased at the planned, or desired rate.

Finally, this results in a different conclusion with respect to desirable trends in the two areas. Griffin decries the failure of urban middle class parties in Latin America to pay any attention to the rural sector, especially the rural lower classes, and therefore there is a need to create an urban-rural coalition to introduce desirable reforms -- and regards this as unlikely. In India, however, the problem is more to increase the political weight of urban and industrial elements within the Congress Party in certain areas of the making and application of economic policy, especially in the allocation of investment resources between agricultural and non-agricultural sectors. This might well contribute to new ideas with respect to economic policy in India, and to increase the flow of resources from the rural to the urban sector of the Indian economy.⁷ Given the history of the Congress Party and its proven ability to meet crises in the past, I would consider the probability of the above developments within India as higher than Griffin considers the probability of an appropriate political development in Latin America.

⁷With respect to appropriate policies in the agricultural sector to raise farm output I expect the rural elements within the party may be a better guide than urban groups that have set forth, though not applied, policy in the past.