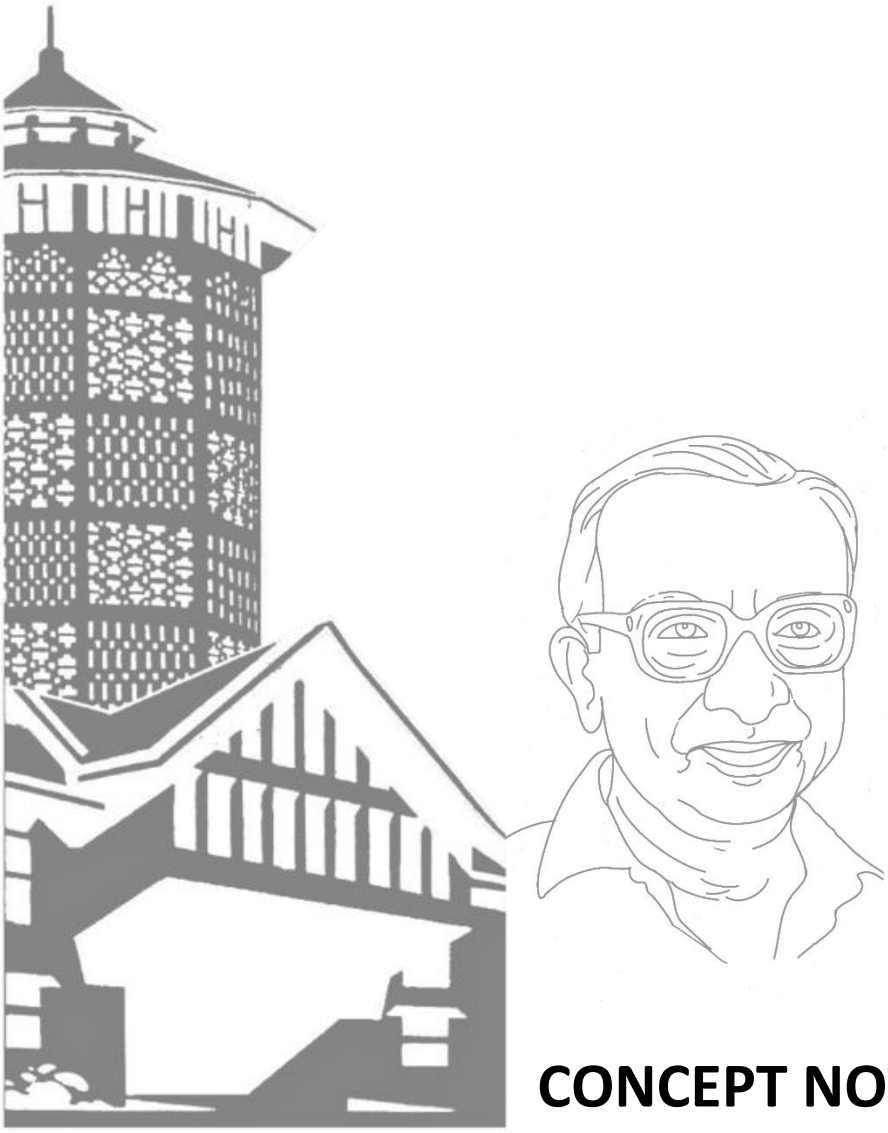
Prof. K.N. Raj Centennial Celebrations

19-22 October 2024



CONCEPT NOTE

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Concept Note [1]

The breadth of K. N. Raj's interests, and the themes explored by him in his scholarly and policy work, are remarkable—even for a time in which economists tended to have more wide-ranging interests than today. The six themed panels of this conference suggest as much.[2] Across these themes, Raj's work served to open new research lines and strengthen existing ones. The goal of this conference is to explore the original themes—capacious enough to include different notions of development, welfare, and justice—in today's context marked by both continuity and change. Raj's work was motivated by a humanist vision and an aspiration to improve public policy, a grounded approach to theory and empirical explanation, and an understanding of how institutions and power structures shape development realities and possibilities. Krishnamurty (2007, 265–66) uses Raj's 1956 Cairo lectures to succinctly comment on Raj's approach: '(i) conceptual clarity; (ii) confronting, not avoiding, difficult issues; (iii) focusing on the role of institutions, and the way they change; (iv) looking at regional variations and patterns; and (v) using all available data, but with caution'. These were qualities he embedded at the Centre for Development Studies which is hosting this conference inspired by these sensibilities and orientations.

For each of the six panelled themes of the conference, the sections below offer glimpses of Raj's arguments and insights, and engagement by others.

1 Poverty, Inequality and Welfare

Raj's humanist vision shaped his scholarly work. He had an 'uncompromising commitment to the welfare of fellow human beings, especially the weaker sections' (C. T. Kurien 2010, 34). At the beginning of the famous Cairo lectures, he notes the important, talismanic point that economic analysis has to explicitly bear on the 'advancement of welfare in the long run' (Raj 1957, 2). For him growth was entwined in theory and practice with employment and inclusion. Raj (1957, 2) notes that 'an approach to the problems of growth in such economies [as India's], which does not take into account the employment aspects … is too divorced from the realities to be of any practical value.' He further observes the inequality implications of the 're-absorption thesis'—displaced labour in agriculture reabsorbed in industry—for 'it means that the distribution of income will be shifted by technological change in favour of profits and against wages' (Raj 1957, 35–36).

[1] This note draws on a draft paper written by Prof Suraj Jacob for this conference ('Raj the scholar: Humanist vision, grounded theorising, and focus on institutions').

[2] Scholars categorise Raj's academic interest areas in different ways. Kannan (2011) identifies the following themes: Planning for development; agrarian economy; labour market; policy issues; Kerala; and political economy and politics of development. Vaidyanathan (2007, 3096) focuses themes of inclusive growth: 'both macroeconomic aspects of development strategy and policy as well as specific aspects, notably agrarian structure and land reform, conceptual and measurement rural unemployment, India's cattle economy, decentralisation and the impact of structural changes in the world economy for developing countries'—along with intermediate regimes and an overall approach to set economic activities and development in a broader field of society and polity. Reddy (2010) singles out Raj's 'framework for understanding the agrarian structure', 'how rural societies in newly independent and poor countries functioned', unemployment and underemployment, and the bovine economy. Two prominent books were also published in honour of Raj. The one edited by Bardhan, Datta-Chaudhuri, and Krishnan (1993) adopts a broad three-fold classification: Issues in development theory; comparative analysis of economic development; and problems of the Indian economy. The book edited by Krishna and Vaidyanathan (2007) is divided into five sections: macroeconomic paradigms, policies, and growth; saving, investment, and innovation; agriculture, industry, and interactions; labour and employment; and the Kerala model and decentralized governance.

In his contribution to the first FYP, Raj imagined meaningful development in a broad sense (rather than the narrow sense of aggregate production through marketized value) within existing institutional and social realities. For him, development was 'a wider process arising not merely at the development of resources in a narrow technical sense, but at the development of human faculties' (Planning Commission 1952, 7; cited by Kannan 2011, 368). Raj's deep instinct to go beyond economic growth was manifested in the landmark study titled *Poverty, Unemployment and Development Policy: A Case Study with Reference to Kerala* (UN-CDS 1975). Kannan (2011, 379) notes that 'Raj's idea was to demonstrate the possibility and the feasibility of human development (without of course using this now fashionable terminology) without waiting to attain high levels of income.'

Following the UN-CDS report, while Kerala was feted for its development outcomes, further research showed that the 'central tendency' did not apply to groups such as Dalits, Adivasis and fishing communities (J. Kurien 1995). More generally, caste relations and gender relations—that is, considerations of caste and gender untamed by developmentalism—were not recognised in mainstream research which 'stayed well within the broad contours of 'development and modernization'' (Devika 2007, 18).

2 Employment and Gender

Although Raj was no romantic of the traditional peasant economy, his understanding of rural institutions made him differ from the Lewis model-type modernisation instincts of others. He was concerned 'to create such conditions that the latent surplus of labour is transformed into actual supply in the labour markets, is consistent with the rate of absorption' (Raj 1957, 8). In Raj's vision, the process of transition from agriculture should be gradual and should involve strong consideration of the wellbeing of both those involved in agriculture as well as rural artisans (Mody 2006, 18). For market labour supply to increase through pull factors rather than distress-driven push factors, he argues that real incomes of rural households would need to increase, and this led him to land reform policies and household industry policies (Raj 1957, 8). He also points out that surplus labour could be used to build 'social overheads which the community considers necessary, such as the construction of village tanks, irrigation drains, school buildings, etc' (Raj 1957, 21). Indeed, for him these constituted 'hidden investment potential' even as the second FYP went in the opposite direction at the time of his delivering the Cairo lectures. There are interesting echoes with NREGA and its emphasis on local community projects with local labour.

Development scholars of Raj's generation tended to see gender from the lens of employment. In the 1950s, the prevailing notion was that women in India mostly tended to opt out of the labour market as well as activities directly connected with the market economy. Raj (1957, 6) contests this notion based on his sociological understanding. Overall, however, mainstream development approaches tended to reduce gender to relative measures of women's health and education, with the further elision that such measures represent 'women's autonomy'. Leela Gulati (2003, 340) recalls a major workshop on poverty at CDS where there were 'sharp disagreements over modelling assumptions … and the use of econometric techniques' and being struck that the 'papers and discussions lacked a human element … There was little or no talk of what it meant to be poor, let alone poor and female.'

3 Macroeconomy, Money and Public Finance

Raj took an institutional, disaggregated approach to understand the macroeconomy. He held the view that agricultural growth was critical for industrial growth (Raj 1976a) and his approach to investment finance reflected this. In the PhD thesis that he published at just 24 (Raj 1948), he argues

that the RBI's impact was limited because a limited set of financial and commercial markets were in contact with it—and this led to little influence on agricultural credit to the non-elite. A quarter century later he continues to raise these concerns when he notes that banking policy was conventionally focused on interest rate and total loans but not on important questions affecting inclusivity in development (Raj 1974): Who gets the loans, on what criteria, and for what purpose?

Even in his PhD thesis, the young Raj argues that India cannot be viewed simply from the lens of western monetary theory focused on stabilising interest rates against capital market volatility (Raj 1948, 5); rather, in the Indian context the focus should be on investment finance extended to non-elites. Raj (1948, 5, 7) writes: 'In the satisfaction of the demand for "investment-finance", expressed as well as potential, lies the crux of the problem of monetary management in a backward economy.' Raj (1979) argues that in India lenders tend to face much greater risks than borrowers due to institutional factors (absent connections savers and investors, agricultural earnings risks, and the nature of rural moneylending). This translates not just to higher interest rates but also to credit rationing that favours loans to those who are better off economically.

4 Trade, Industrialization and Growth

Just a decade into planning, Raj was asking: 'Is the Indian growth process pro-poor?' (Mody 2006, 9). Raj (1976, 231) questions the prevalent understanding of 'economic efficiency' in the manufacturing sector thus: 'It is so closely associated with the use of the market mechanism as it operates (and therefore with prevailing market prices), and permits so little scope for interfering with its working except through fiscal devices (which have many limitations), that it often misses the essence of the problems of developing economies.'

Raj's attention to careful empirical analysis is evident in the discussion of under-utilised industrial capacity in his study of industrial stagnation. In the 1960s, USAID's questionable large estimate of under-utilised capacity ended up influencing devaluation and import liberalisation policy and a decade later FICCI's problematic large estimate was being used in policy recommendations (Raj 1976a, 224). Not only were these estimates flimsy, but Raj also points out that they missed a crucial subsector, manufacturing MSMEs: 'the possibility of their being competed out, by the additional imports to be made available to the factory sector through foreign aid, did not receive the attention it deserved' (Raj 1976a, 225).

Raj's analysis of industry is linked to his understanding of the primary sector. He argues that steadily increasing output in the agricultural sector will lead to increased demand for industrial output 'particularly of small enterprises in the rural and semi-urban areas', leading further to growth of larger enterprises (Raj 1976a, 230). He also argues that it is neither feasible nor desirable for industrial growth to be propped up by affluent urban consumer demand, a position echoed in Kaldor's later work. While critics argue that demand could also come from elsewhere, particularly through international trade, and that Raj's export pessimism was unwarranted (Srinivasan 1993), supporters of Raj's position pointed to dangers of liberalisation (Kannan 2011, 378): 'He foresaw the dependence on foreign demand, on luxury goods within the country and a pattern of industrial growth powered by foreign technology, capital and markets alongside a domestic market that mirrors demand in foreign markets. Such a process also fails to create jobs within the organized sector of manufacturing resulting in what many scholars have called 'jobless growth.'

5 Decentralisation and Governance

Raj emphasised decentralisation for development and himself practised it in his leadership role at the Delhi School of Economics (Krishnamurty 2010). Indeed, his decision to leave Delhi and set

up the CDS in Trivandrum also spoke to his instinct for decentralisation (Reddy 2010). He took seriously the point that local governments should not merely implement interventions planned elsewhere but be 'active instruments for decentralised planning' (Raj 1971, 1611). He was drawn to the possibility of decentralised governance both for ideological-humanist reasons and because of his contextual approach to analysis—that is, given India's size and diversity, any 'planning strategy adopted at the national level has therefore to be itself built on a detailed assessment of the development needs and potentialities in different parts of the country' (Raj 1971, 1611). Nevertheless, his critique of implementation failure from over a half century back (Raj 1971, 1609–10) ring true even today: 'the administrative machinery and the fiscal and other instruments' were not decentralised and local governments were 'no more than local bodies to which the responsibility for expenditure for certain purposes has been delegated by the State Governments.'

Raj was a votary of decentralisation not only in state-local relations but also in centre-state relations, and he was critical of the centralisation in centre-state relations despite India's federal framework. He notes that planning and financing from the national government are such as to have 'left little scope for flexibility or initiative at the State level' (Raj 1971, 1612). He further feels that 'States should have, within the framework of national planning, greater scope for framing development programmes appropriate to their particular conditions and for exercising initiative in mobilising resources for the purpose' (Raj 1971, 1614).

Raj also explored governance regimes. According to him, Nehru saw the Congress representing the petit bourgeoisie—more than big business or the proletariat—and was hopeful that the class possessed some vitality to achieve the objectives of parliamentary democracy and socialism (Raj 1964, 1231). He interprets many policies of Nehru's government through this lens: Regulation of large and modern industries, public sector expansion, hostility to foreign private capital, and promotion of cooperatives (Raj 1964, 1231–32). But, comments Raj (1964, 1233), it turns out that the petit bourgeoisie had 'more vocal power than vitality in the handling of vital problems.' Raj expanded on this idea after encountering Michael Kalecki's work on intermediate classes published in English in 1967 (Raj 1973b, footnote 1). The intermediate classes were a set of heterogeneous groups in the middle—small businesses, large and middle peasantry, public sector employees, and the lower middle classes—between big business and the economically disenfranchised. They put subsidy pressures on the state, including high prices for marketed output of rich peasants (Raj 1973, 1192). Through their demands on the state, intermediate classes seriously constrain autonomous action—and, in particular, make it difficult for the state to extract resources for investment and growth. And while economic inclusiveness increases to a small degree to the organised industrial working class and to the very disadvantaged, the bulk of the small peasantry, the landless, and the unemployed do not gain much.

6 Agriculture and Rural Economy

The rural economy loomed large in all of Raj's economic analysis. Remarkably, even his study of industrial stagnation and growth made sure to discuss agricultural harvests and the lot of agricultural labourers and smallholders (Raj 1976a, 230). Raj's analysis of agriculture squarely confronts the popular thesis that technology worked agricultural miracles, for instance in Mexico; a proponent of this thesis, Theodore Shultz, even won the Nobel prize. Through careful spatial and temporal analysis of Mexico's case, and comparison with Taiwan and regions of India such as Punjab and the then Madras state, Raj (1970) concludes that irrigation facilities drive agricultural growth far more than technological inputs do. Further, agricultural credit depended on asset ownership, making it difficult for smallholders to access credit for modern inputs. In these circumstances, 'the availability of modern technology very often leads only to dualism in the agricultural sector (as in Mexico) rather than to the transformation of traditional agriculture' (Raj 1970, 125).

Raj (1976b, 11) notes that despite the importance of power and social norms in resource utilisation and income distribution, 'they have come to be treated merely as exogenous elements more or less on a par with climate and culture.' To make the point, he draws on previous studies to compare two villages in Tamil Nadu where small populations of powerful caste groups control most of the agricultural land. Economic theory predicted a positive relationship between tenancy and irrigated land, but the opposite was the case. Raj explains this based on social structure and the presence of attached labour / serfs in the village with more irrigated land (Raj 1976b, 18): 'Not only are market and social power in these societies generally exercised by a very small minority but the members belonging to this minority often occupy dominant positions in a number of factors and product markets simultaneously, with the result that these markets are inter-locked by price as well as non-price links.' These insights have implications for contemporary policy focused on MSP and product markets (Shah 2021, 35).

The short sections above provide a selective glimpse into the concerns and insights of Raj—as well as others engaging with them—on the six themes that have inspired the conference panels. Today, over three decades since Raj's active scholarship ended, India's development landscape faces many new challenges even as several old ones remain. The conference papers will explore emergent realities for the corresponding themes.

We have already indicated that more recent research has explored gender and caste relations outside of the modernisation / developmentalist framework. Besides this, we acknowledge two other themes that new research explores, although they are not the focus of conference panels. The first theme is individualist-materialist orientation, exacerbated by the experience of economic liberalisation, which leads to new subjectivities. As Devika (2016, 135) puts it, state action for development is 'largely individual beneficiary oriented and consumption centred … [and produces] the subject of *responsibilised* welfare.' Raj is also concerned about untrammelled materialism when he notes that 'the appeal of a wide range of new products that have been popularised in the developed countries is very strong for the upper-income groups in the less developed countries today' (Raj 1979a, 163). The second theme is environmental degradation and climate change, including environmental and climate justice. This is consistent with Raj's instinct for 'low-tech' and decentred ways of living 'since the product-mix on which it [modern growth] is based—consisting to a considerable extent of items such as aluminium, stainless steel, synthetic fabrics, structural steel, plastic, glass and cement—tends to highly energy-intensive, [and] one may doubt how far this kind of growth is compatible with the limits set by the energy potential from known sources and the need for its being distributed fairly equitably' (Raj 1979a, 163–64).

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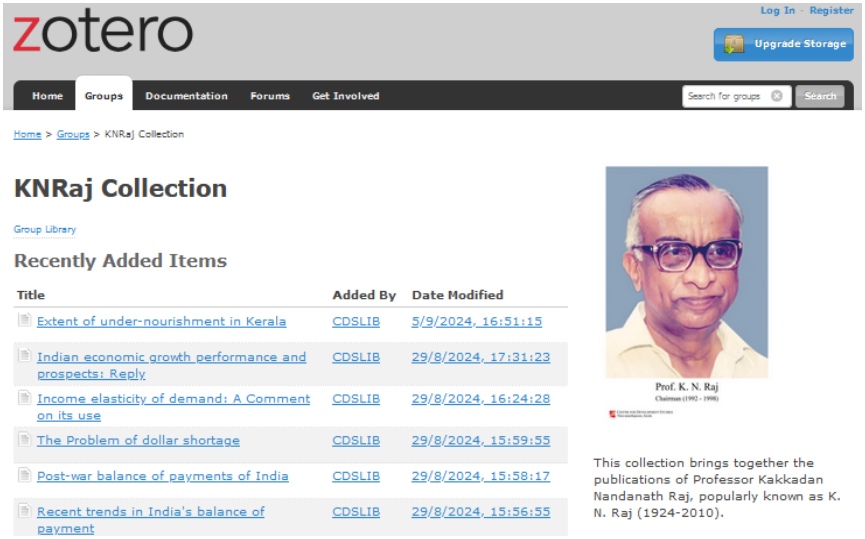

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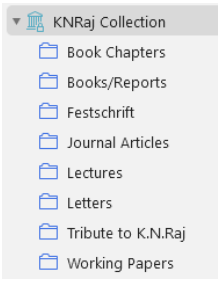

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