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The Legacy of Ashok Mitra

Agrarian South: Journal of Political Economy
7(3) 381–393
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SAGE Publications
sagepub.in/home.nav
DOI: 10.1177/2277976018803800
http://journals.sagepub.com/home/ags

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Abstract

Ashok Mitra, the renowned Indian economist, passed away on 1 May 2018. Mitra was a keen analyst of the relationship between economics and politics, which he understood as being inextricably enmeshed, with the latter having a degree of relative autonomy. It followed, for Mitra, that class struggle 'in society at large' underlay 'every aspect' of economic life, including the determination of economic variables. He focused his analytical sights on distributional dynamics, specifically on the relative shares of the different classes in national income and the role of the State. He took issue with, and went beyond, Kalecki's theory of 'degree of monopoly', which Mitra did not take as a given but as determined by factors that included the real wage rate. He also advanced, beyond the main approaches, to the issue of the terms of trade, including that of Prebisch, by illuminating the class differentiation within the sectors, especially agriculture, and the political clout of the rural rich. Mitra was also passionate for economic decentralization, at a time when the Third World was in a special, early post-war and post-colonial conjuncture, which bestowed a higher degree of manoeuver for state intervention and policymaking. Mitra will be remembered as a theorist of the 'dirigiste' phase of Third World development.

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Keywords

Ashok Mitra, India, dirigisme, distribution of income, terms of trade

Introduction

Perhaps no other economist in recent times has done as much to incorporate the role of politics in shaping economic variables as Ashok Mitra, the renowned Indian economist who passed away on 1 May 2018. In fact, he was averse to visualizing the economic realm as a relatively autonomous one which was governed by its own 'laws', with the State only guaranteeing the 'rules of the game' and intervening directly only in special circumstances. According to him, economics and politics were closely and inextricably enmeshed, with the latter having a degree of relative autonomy, whence it followed that class struggle 'in society at large' underlay 'every aspect' of economic life, including the determination of economic variables. His special focus was on the distribution of total output and on the relative share of the different classes in national income; he saw it as being determined by relative class power in the process of a struggle over distribution.

The Share of Wages in National Income

This was a position which differed sharply from that of neo-classical economics which saw the distribution of total output between different 'factors of production' as being determined, when markets functioned freely, by their respective marginal products at full employment. This proposition assumed perfect competition (and, associated with it, Say's Law that there could never be a demand constraint), and Mitra (1980) in his doctoral dissertation, *Share of Wages in National Income*, criticized it on this ground.[1] (After Piero Sraffa's [1960] work ,which came later, we now know that this proposition is also *logically* flawed, because 'capital', one of the 'factors of production', being a value sum, cannot be measured unless the equilibrium prices are known, and these cannot be known unless income distribution is already given; and any effort at rescuing this theory through *any* ruse whatsoever flounders irreparably on the ground that the value of capital evaluated at equilibrium prices does not have a monotonic relationship with the rate of profit, which is an essential requirement of this theory.)

Michal Kalecki (1938) had already criticized the Marginal Productivity theory of distribution on the same grounds earlier, namely that it ignored the fact that capitalism was characterized by the pervasive presence of monopoly and oligopoly, not just in recent times but throughout its history, that is, that 'perfect competition' was a sheer myth. Kalecki had put forward his own theory that the share of wages, for any given industrial composition in an economy, depended upon two factors. One was what he called the 'degree of monopoly' in the economy, which was a weighted average of the 'degree of monopoly' in each industry, a term that referred to the 'mark-up' of price over the unit prime cost (consisting of wage and raw material costs) in each market, as oligopolists colluded to resort to 'mark-up' pricing (Kalecki assumed the unit prime cost curve to be flat for given money wages and raw material prices in the neighbourhood of the equilibrium output in each industry). The second factor affecting the share of wages was the ratio of raw material prices to the unit wage cost.

Kalecki's theory, however, while recognizing the power of oligopolists in fixing their price and, hence, influencing income distribution, had a curious implication. Let us for simplicity abstract from raw materials here. Then it followed from Kalecki's theory that a rise in money wages would simply get 'passed on', as long as the mark-up remained the same, in the form of a higher product price, leaving real wages and, hence, the share of wages (for a given level of labour productivity) unchanged. Since wage bargaining was always in money terms and trade union action could only raise money wages, it followed, therefore, that trade unions were incapable of influencing the share of wages. This was an odd conclusion, which immediately raised the question: If they could not even raise real wages, then why was there so much opposition to trade unions?

Marx, in a speech to the International Working Men's Association, published as *Wages, Prices and Profits*, had argued in opposition to Citizen Weston, a follower of John Stuart Mill who had suggested on the basis of Mill's 'Wage Fund' theory that trade union action could only benefit some workers at the expense of others but could not raise the share of wages as a whole, that union could indeed raise the entire wage share at the expense of the rate of profit. But Marx's argument had been set in a world (corresponding to his time) of 'commodity money' (where money consisted of gold or silver and of paper convertible to such metals). In such a world, money wage increase could not possibly lead to an equiproportionate increase in money prices (for otherwise the price of gold vis-à-vis other commodities would become indeterminate), and, hence,

necessarily led to real wage increase, which, for any given level of labour productivity, meant increase in wage share.

But in a world with non-convertible paper money, as has been the case in recent times, there is nothing to ensure that a rise in money wages cannot be 'passed on' in the form of an equi-proportionate rise in money prices; and, if the 'mark-up' by the oligopolists is fixed, then it would indeed be so 'passed on', so that real wages and the share of wages would remain unchanged. Trade union action in a world of paper money and mark-up pricing, therefore, appears incapable or affecting the wage share. And since both these features characterize the world we live in, trade union action appears singularly infructuous; but then why do trade unions arouse so much opposition from the capitalists?

This was the prime question addressed by Mitra in his doctoral dissertation, and he answered it by rejecting Kalecki's theory, and advancing an alternative theory. Kalecki had derived his theory from a certain mathematical identity and Mitra critiqued it as being tautological. In fact, the 'degree of monopoly', he said, was an 'intermediate' concept, which instead of being merely postulated had to be derived from micro-level firm behaviour. Using a Cournot model of oligopoly behaviour as its micro-foundation, he put forward an alternative theory of income distribution at the macro-economic level, where the real wage rate, determined by trade union action (which itself, no doubt, was influenced by the relative size of the reserve army of labour), affected the share of wages. He took Kalecki's 'degree of monopoly', in other words, not as a given, but as determined by factors that included the real wage rate.

Kalecki himself was troubled by this implication of his theory and, right until the end of his life, kept returning to it.[2] The solution he proposed to the puzzle within the framework of his own theory was not to invoke micro-economic behaviour, as Mitra had done, but to postulate, in general terms, that the level of mark-up was also influenced by the strength of trade unions, that stronger trade unions tended to keep the mark-up margin more restrained and, hence, the share of wages higher than otherwise.[3]

The question of the impact of trade union action nonetheless remains a puzzle. Once we recognize the existence of raw material producers, an obvious solution emerges, which curiously did not figure in Kalecki or Mitra. This solution is based on the distinction between 'price-takers' and 'price-makers' which economists like Galbraith have emphasized (Galbraith, 1963). Although the oligopoly sector consists of price-makers, the raw material producing sector consists of price-takers, whose share in the total output of the sector into which their product enters is a

mere residue, after the capitalists of that sector and the workers (organized into unions) have taken their claimed shares. Trade union action, then, can raise the share of wages, not at the expense of the capitalists but at the expense of the raw material producers (through a shift in the terms of trade against them). This comes about, however, through the impersonal functioning of the system, and not because the 'organized workers', in any sense, 'exploit' those in the unorganized sector.

Kalecki did not discuss this case for a theoretical reason. He distinguished between 'cost-determined' and 'demand-determined' prices, the former being applicable to the manufacturing sector and the latter to raw materials. But simply taking raw material prices as being demand-determined, as he did, is not enough. It begs the question: How do raw material supplies adjust to demand, and what determines the supply price of raw materials? When we fully specify the supply adjustment mechanism, then the possibility of real wages in the manufacturing sector rising through a permanent squeeze on the raw material producers emerges, which merely labelling their prices as 'demand-determined' misses.[4]

Both Kalecki and Mitra, however, missed this point, which would explain three simultaneously observed phenomena: of stability in the wage share (more or less) in the advanced countries; of a rise in the degree of monopoly in those countries (on Kalecki's, though not on Mitra's estimate); and of the secular decline in terms of trade for primary products vis-à-vis manufacturing, which was observed by Prebisch and Singer for the years before the Second World War.

Though Mitra's *The Share of Wages in National Income* did not go into the question of the determinants of the terms of trade between manufacturing and primary commodities, his subsequent work made ample amends for it. He had, meanwhile, occupied the important position of Chairman of the Agricultural Prices Commission within the Government of India, and in that capacity had recommended each year what the prices should be at which a whole set of crops should be procured by the concerned government agencies, entrusted with the task of supporting the farmers by assuring them remunerative prices. It is on this experience that Mitra (1977) wrote *Terms of Trade and Class Relations*.

Terms of Trade and Class Relations

Mitra's *Terms of Trade and Class Relations* was his magnum opus. It put forward a general proposition, and within it a specific proposition. The general proposition argued that the price charged by the sellers of

any one major commodity relative to those charged by the sellers of others, that is, their terms of trade, which determined their relative share in output, depended upon their class strength relative to others in society, a strength exercised not just through the market but through their influence over the State as well, whence the inseparability of economics from politics. From a general defence, against the early versions of Kalecki's theory, of the role of trade unions in affecting the wage share, Mitra had come to emphasize the balance of class strengths in society at large in the distribution of income.

He was to go much further in a series of articles he wrote around this theme, where he noted that the effective income distribution depended not just on the shares obtained from the market, but on a host of additional factors such as taxes and transfers, public provisioning of healthcare and other essential services, and so on. When we take this whole range of macro-economic policies which impinge on income distribution into account, then clearly the balance of class strengths emerges as an even more powerful explanatory factor. He saw class struggle as the pervasive phenomenon existing in the realm of the economy and the polity, and determining what appear initially as purely economic variables.

Within this general picture, he placed his specific analysis of the Indian economy. In countries like India, which had adopted the institution of electoral democracy, but without destroying land concentration and, hence, the power of landlordism, the bourgeoisie required the support of the landed interests in the countryside to obtain for it the votes required for coming to power. In return, the landed interests, or more generally the rural rich (since a stratum of rich peasants had also joined the landlords at the top, having moved up through the limited land reforms carried out after independence), demanded and obtained as a quid pro quo a shift, not just once-for-all but a continuous shift, in the inter-sectoral terms of trade in their favour.

This shift, though inter-sectoral, did not benefit everyone in the agricultural sector; on the contrary, it harmed a vast mass of agricultural labourers and small peasants who were net buyers of foodgrains in the market. In other words, the inter-sectoral shift in terms of trade was also a shift relative to the money wages both in the agricultural and the non-agricultural sectors. What appeared as an inter-sectoral shift, in other words, was effectively a shift in the terms of trade in favour of the rural rich from the other classes in the economy.

The decline in real wages in the industrial sector as a consequence of this shift had the effect of making the workers there, who were comparatively better organized in that sector, demand and obtain higher money

wages; but that had the effect of raising the product wage in that sector, that is, money wages deflated by the price of what they 'produced' (not what they consumed) and, hence, squeezing the profit margin as well as the profit rate. Put differently, the terms of trade shift squeezed the real wage but raised the product wage of the industrial workers; and the consequent squeeze of the profit rate led to an atrophy of the industrial sector. The appeasing of the rural rich, in short, brought both hardships to the working people and a stagnation of the economy.

Most writers on development, starting from David Ricardo, have recognized the possibility of the terms of trade shifting in favour of agriculture because of the constraints upon the expansion of agricultural output, whether for natural reasons, as in Ricardo, or owing to the persistence of the old agrarian structure marked by land concentration and social oppression. Mitra's analysis differed from all such preceding theories in postulating the terms of trade shift in favour of agriculture, based not on normal demand–supply considerations, but on the political clout of the rural rich. The detaching of the terms of trade from normal demand–supply considerations, and even from the existence of monopoly elements per se, which many writers, including Prebisch, had advanced to explain the secular shift in the terms of trade in the world economy *against* agriculture and primary commodities, generally, was a notable departure.

Mitra did not just recognize the fact of terms of trade shift in favour of agriculture even in a situation of no discernible agricultural constraint, but went beyond mere monopoly behaviour to bring in state intervention as an explanatory factor behind it. And such state intervention, he argued, occurred not in favour of the industrial sector, as one might have normally expected, but in favour of the agricultural sector to benefit the rural rich.

Of course, his analysis is derived from the specific institutional mechanism set up in India from the mid-1960s, in the wake of two successive years of disastrous crop failure in 1965–1966 and 1966–1967, which caused a famine in Bihar (though nowhere on the scale of the famines of the colonial period). This entailed the procurement at pre-announced remunerative prices of a whole range of food crops by public agencies, and their distribution, again at fixed 'issue prices', through the public distribution system. The announced procurement prices acted as a floor for the free market prices, so that the government in effect could turn the terms of trade between agriculture and industry in favour of the former through announcing suitably high procurement prices. (Even for cash crops there was such a procurement operation in place to prevent price crashes.) But Mitra's general point, though located in the context of

this arrangement, does not derive exclusively from the coincidental fact of its existence. It is unaffected by this specificity of the Indian institutional arrangement; indeed, one can argue on the basis of his overall perspective that the very institution of such a mechanism that could be used to turn the terms of trade in their favour would itself reflect the pressure of the rural rich.

The fact that the terms of trade could be fixed by state intervention, and, hence, through the exertion of political pressure on the State, independent of demand and supply, suggested that there was never an enduring situation of excess demand for agricultural goods; that is, that the growth rate of the economy as a whole was not agriculture constrained, as Kalecki (1972) and the Latin American structuralists had argued. Mitra himself did not explicitly link agricultural growth rate to the terms of trade, but a plausible hypothesis that could be advanced in the context of his model is that beyond a certain minimum threshold level of profitability of agriculture (below which agricultural growth would languish), any further increase in profitability has little additional impact on the agricultural growth rate; the profitability implicit in the state-fixed terms of trade for agriculture was always above this threshold level. And while at the ongoing agricultural growth rate there was no agricultural constraint and, hence, no sustained ex ante excess demand for agricultural goods, there could of course be a sustained ex ante excess supply. But this could simply end up as government stocks because of the institutional arrangement referred to.

It was mentioned above that Mitra's argument had advanced a general proposition and a specific one. The specific one lost its relevance from the mid-70s onwards, when the government started doing the exact opposite of what Mitra had postulated, namely turning the terms of trade 'against' agriculture by deliberately keeping down the procurement prices.

This was because the terms of trade shift in favour of agriculture was responsible for an acceleration in inflation: even though there was no persistent ex ante excess demand in the normal sense, and the foodgrain stocks with the government were large, any disgorging of such stocks, in particular poor crop years, to prevent inordinate increase in free market prices had little effect, because speculators simply bought up these disgorged stocks in the confident belief, in the worst case scenario for them, that these could be sold back to the government at higher than the current procurement prices at a later date. The entire arrangement, of procurement at fixed prices, and a jacking up over time of these procurement prices, had the effect making speculation into a 'one-way bet' where the speculators could never lose.

Even though there was no excess demand for foodgrains in the normal sense, artificial excess demand was created through speculation in poor crop years; and the squeeze on the industrial workers that this entailed caused a spate of strikes in the early 70s, culminating in a massive Railway Strike, and an immense loss of popularity for the government, which was mainly responsible for its declaring an Emergency in 1975. Starting from that period, there was a reversal of the terms of trade movement.[5]

But while Mitra's specific analysis became inapposite after the mid-1970s, with governments garnering electoral support in ways other than by appeasing the landed interests in the manner he had suggested, his general analysis, namely that relative class strengths, reflected not just at the level of the market, but also in the actions of the State, determined the movements in the terms of trade and income distribution, did not lose its validity. Indeed, if anything, the very fact of the government turning the terms of trade against agriculture after the mid-1970s only confirmed that it was the 'government' that played a major role in such movements, exactly as Mitra had suggested.

The Necessity of Economic Decentralization

Ashok Mitra's other great intellectual passion was related to this perception of his about the inter-linkage between politics and economics; and that passion was for economic decentralization. He wanted much greater devolution of resources and responsibilities from the central government to the state governments and further down to the local self-government institutions, the 'panchayats'. Since influence over the State was crucial for a class to tilt the terms of trade in its favour, and since the big bourgeoisie had much greater influence with the central government, whose expenditures, moreover, like on defence contracts, were far removed from the direct scrutiny of the people, decentralization was one way of ensuring that some expenditure for improving their well-being came towards the ordinary people.

Mitra actually gave two basic arguments for decentralization: one, the layer of government that is furthest from the direct observation of the people is more likely to divert resources for the big bourgeoisie. When the people can directly observe what is happening, they are likely to exercise greater vigilance on the activities of the government and force it to spend on their well-being. This argument, in other words, invoked the issue of people's supervision.

The second argument invoked the issue of diversity (Mitra, 1975). In a large country like India, different political formations may be influential in different regions and may even come to local power in such regions. If they are to remain true to their agendas, they need to be given sufficient elbow room to put into practice their own particular visions of development. For instance, if the Left were to come to power in some state, then it must be allowed to implement its own vision of a development agenda; and the same must hold for other political formations. Such diversity, however, required that greater resources should be devolved to the state level. And a similar argument could be made for greater devolution from the state government level to the local self-government institutions or panchayats.

Mitra's argument, here, went against the view of many, including B. R. Ambedkar, the outstanding 'dalit' leader and chief architect of the Indian Constitution, that decentralization has the effect of strengthening local 'satraps', that the way to break the stranglehold of the old feudal social order was through intervention from 'outside', that is, that 'modernity' comes to the caste-ridden village structure from outside. Greater decentralization of resources and powers in favour of the village has the effect, on this view, of strengthening the old structure rather than of weakening it.

But Mitra's argument perhaps was based on the assumption that within a village panchayat system, where the leadership is elected, the people are conscious enough to fight against such strengthening of the old order and that, contrary to what one might expect, it is the big bourgeoisie that, for its own preservation, allies itself with the landed interests which are the strongest pillars of the old order. He saw decentralization as part of the process of strengthening the democratic roots of the polity and moving towards greater economic egalitarianism.

Mitra's insights in this regard have been borne out by recent developments in India, which has witnessed a remarkable increase in the centralization of powers and resources, combined with unprecedented largesse towards the big bourgeoisie (of which the recent Rafale deal involving the purchase of fighter aircraft from France is alleged to be a glaring example), and an escalation of atrocities against marginalized groups. This combination could be considered a happenstance: the incidence of such atrocities, it could be argued, would not have been any less in the absence of centralization of resources and powers, since they depend more on the nature of the dominant political formation. However, the current dominance of a political formation that is more benign towards the old social order is itself not unrelated to the support of the big

bourgeoisie it enjoys, as a counterpart of its largesse towards them which has become possible owing to the centralization of resources.

The Conjuncture of 'Dirigisme'

Several questions arise with regard to Mitra's perception that economic variables are determined not in some exclusively economic realm, but as a result of the intervention of political factors too. Do political factors have an autonomous role or do they merely expedite and accentuate the tendencies immanent in the economic realm? Does the importance of political factors make the system open-ended, where anything can happen, rather than 'spontaneous' in the sense of being governed by certain immanent tendencies? What, in other words, is the role of the 'economic' in this conjoint determination of the economic trajectory by the 'economic' and the 'political'?

In the current era of globalization when economies are open to more or less free global flows of finance capital, the nation states necessarily have to pursue policies which conform to the demands of finance, for otherwise there would be financial outflows from their shores, precipitating financial crises. Even though the State does intervene, and quite massively despite of all the talk of the 'retreat of the State', its intervention, in short, is itself determined by the realm of the economic. Political intervention, though important, does not play any autonomous role, independent of what the economic tendencies dictate. If this is so for the current period, then Mitra's argument can be considered to be of relevance only for that period of capitalism when its immanent tendencies were, because of certain very special circumstances, open to state interference.

The period of post-war 'dirigisme' was such an exceptional period. Capitalism had emerged from the war greatly weakened; its very existence was threatened as much by the expansion of the socialist camp as by working class unwillingness in the advanced countries to go back to the old pre-war days of unemployment and distress, and by the restiveness in the colonies. Capitalism survived that conjuncture by making concessions, the prominent among which were decolonization, the introduction of universal adult franchise at home, Keynesian demand management for attaining near full employment (which had been shunned when it was originally proposed in the 1930s) and Welfare State measures under Social Democracy in Europe. It was in this period that the working class got concessions through its political intervention, because politics did have some autonomous role to play.

The Mitra perception of the inseparability of economics from politics in the determination of the economic trajectory itself, therefore, refers to a particular conjuncture in capitalism, the conjuncture of the post war years when 'dirigisme' was dominant both in the metropolis and in the Third World. Within that conjuncture, the specific Mitra argument about a shift in the terms of trade in favour of agriculture because of the pressures of the rural rich, was valid for a certain period in India. From the mid-1970s, the situation even within India became different. But when that conjuncture ended and a neo-liberal regime was introduced almost all over the world, even such relative autonomy of politics ceased to exist; that is, Mitra's general proposition, too, lost much of its relevance.

It is not surprising that there is an immense squeeze on the agricultural sector under neo-liberalism, owing to the withdrawal of the earlier forms of state support from it, which exposes it to a process of primitive accumulation of capital. Indeed the sector scarcely remains profitable any longer and peasant indebtedness has skyrocketed. The pervasive agrarian crisis and mass suicides of the peasants that we witness in India is an expression of this.

To be sure, the rural rich have not lost their position and power within the neo-liberal regime; but their retention of economic strength now derives from their diversification into activities other than agriculture proper. And their relative position within the ruling class combine has distinctly worsened in comparison with the corporate financial oligarchy which is integrated with globalized capital.

Hence, while Mitra's specific views on terms of trade capture a certain phase of 'dirigisme' in India, his general proposition about the inseparability of economics from politics that gives the latter a certain relative autonomy, has validity for the post-war dirigiste period as a whole in the history of capitalism. Mitra, I am sure, would have agreed with this, as he saw clearly the implications of neo-liberalism, and, as the 'doyen' of progressive Indian economists, led the intellectual resistance against it. He would, however, continue to be remembered as a theorist of the 'dirigiste' phase of Third World development.

Notes

1. His doctoral dissertation was published in the early 1950s and republished in 1980.
2. Indeed, his last essay on the subject was written a few months before his death (Kalecki, 1971).
3. This solution was already contained in Kalecki (1954), and his subsequent writings scarcely added anything of significance to it.

4. For an elaborate demonstration of this proposition, see Patnaik (1997).
5. For an analytical discussion of how turning the terms of trade against agriculture could bring down the rate of inflation in India, see Patnaik (1992).

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