

# Lensing Paul Baran's Contribution to the Developmental Economy of Growth

Sipra Sagarika.

Research Scholar, Centre for Study of Social Systems, School of Social Sciences, Jawaharlal Nehru University, New Delhi, 110067.

Corresponding author: Sipra Sagarika, Research Scholar, Centre for Study of Social Systems, School of Social Sciences, Jawaharlal Nehru University, New Delhi. Email: sipra.sagarika@gmail.com

## Abstract

The work is based on Paul Baran's Political Economy of Growth. It is one of the most influential studies ever written in the field of development economics, by an American Marxist in the year 1957. It then brought a whole school of followers who are producing further works along the lines indicated by Baran. Concerned with the generation and the use of the economic surplus, it analyzes from the point of view of both the advanced and underdeveloped countries. It is a work on political economy rather than a purely economic one. Baran deals here with the complexities of the present day imperialist relations in the backward areas and the mechanism regulating decadent monopoly capitalism in the advanced countries. The inferential contrast between the growth of the capitalism in its early "competitive" stages and its current stagnation in both the advanced countries and the backward areas is powerful. Baran stresses the need for net investment (the capitalizing of surplus value). Baran states that professors, politicians, business tycoons, and Wall Street economists- no one can escape to recognize the shadows of capitalism. Capitalism is the cause and continuer of the backwardness of most of the world not 'shortage of capital' or lack of entrepreneurial talent', or over population of the colonial world. Turning to the backward areas of the world Baran shows how the systematic export of their economic surplus to the advanced areas of the world contributed to the rapid accumulation in the West and resulted in the so-called 'underdevelopment' in the rest of the globe. A critical lens of his work and comparative analysis of his some other creations are also included here within. A part of the work would also attempt to locate the work of Paul Baran in comparison to other developmental theorist in the parallel trajectories including Fernando Cardzo, Celso Furtado, Theonitio Dos Santos, Ander Gunder Frank and Wallerstien etc. The American Marxist tradition is thoroughly scanned and an attempt to have substantive reflection on the functional mechanism of the Dependency theory is undertaken.

**Key words:** Developed countries, Under developed countries, Dependency theory, Capitalism.

## 1. Introduction

Paul Baran was an American Marxist between 1910-1964. His prominent work in the field of development economics brought a whole school of followers who are producing further work along the theme of classical economics. Further it also emphasized in the realm of the Political economy. In fact Adam Smith's work has created a generation of economic thinker, analyzing the forces responsible for economic progress. They invariably marked the interlink ages between the social, economic and political aspects effecting the productive resources. Along with this they also projected the urgency of free competition for free development of individual enterprises. They also valued the positive working principles of the "rising capitalists". In other words of Professor Lionel Robbins: The system of Economic Freedom was not just a detached recommendation to interfere rather, it was an urgent demand that what were thought to be hampering and anti- social impediments should be removed. However with the full establishment of capitalism the bourgeois social and economic orders were altered. And conscious or unconscious acceptance of such changes are accepted everywhere. Indeed the bourgeois economy abandoned both reason and history. It emphasized on the economic development only to the extent that it has led to stabilization of the capitalist order. Marx and Engels however wanted to go beyond such limitations of capitalist order and comprehended the economic and social progress as the pre requisite for the development of humanity.

They succeeded to destroy the veil of harmony with which bourgeois economics obscured the view of the capitalist system and laid bare the conflict laden, irrational nature of the capitalist order. The element of economic development has historically always meant a far reaching transformation of society's social, economic and political structure of the dominant organization of production, distribution and consumption. It has been always opposed those interested in preservation of status quo. Thus such economic developments are now analyzed along with the capitalism and capitalist systems by the neo-classical economists.

Towards the end of 19<sup>th</sup> century, the first phase of the industrialization of the Western world was about to over. This included a considerable change in the structure of capitalist economies. The economic consequences were very well affected by the revolution of the communication and transportation. Concentration and centralization of capital made giant strides and large scale enterprise moved into centre of the economic scenes and thus absorbing the small firms. This shattered the competitive mechanism and large scale enterprise became the basis of monopoly – and the modern capitalism. Similarly an analysis of the oppression and exploitation of the subjugated nations by the Western civilization, he shows that a considerable harmonious movement of capital from the advanced to the less developed countries depends on mainly three factors such as – profit making, source of raw material and investment outlets and market availability.

## 2. Historical view and Reconsiderations

Historically he shows how great powers began absorbing growing parts of the National outputs and became the most important single factor in determining the level of their economic activity. Thus, Sino Japanese War, Spanish American War,

Boer War, bloody suppression of the Boxer rebellion, the Russian Revolution, 1905, Chinese Revolution, 1911- 1912, First World War etc, all ushered in the present epoch in the development of capitalism -the epoch of imperialism, war, national, and social revolutions. Further the events such as Second World War followed by Chinese revolution had shattered the structure of capitalist world. He explains that in order to do away with the edifice of imperialism or to put an end to the backwardness, the countries under the ruling class categories such as United States must be put into reconsideration and certain other aspects must be also seen such as a proper comprehensive economic planning can curtail the private ownership of means of production. This clearly reflects the internal social revolutions within the dependent countries, and the world wide implications of economic progress in its real essence.

### **2.1 Capitalist Mode of Production and Baran's Variables**

He tries to deal with the capitalist mode of economic development through two variables i.e. advanced countries and the underdeveloped countries. In case of the advanced capitalist countries, there is a major incompatibility marked between sustained economic growth and capitalist system. For instance, the increase at rates that would be attainable with the available human and material resources - presented in different forms by Domar, Harrod, Colm etc are impossible. Similarly both consumption and private investments are narrowly interconnected by the requirements of profit maximization under the conditions of monopoly and oligopoly. And even the nature and volume of government's spending are determined by the social basis and the functions of the state in a capitalist society. Consequently, neither maximum output, nor rational allocations between the investment and consumption can be expected. And the most evident dilemma re-emerges between reduced output and depression induced floods of unemployment. Thus socialist economic planning represents the only rational solution to the problem. He further explains that matters of economic development in the underdeveloped countries are even worse than this. Majorly the economic development in the underdeveloped countries is profound representation of dominant interests of the advanced capitalist countries. For instance- supplying many important raw materials to the industrialized countries and even providing their corporations with vast profits and investment outlets. The backward world has always represented the indispensable hinterland of the highly developed West, thus because of this United States is bitterly opposed to the industrialization of the so called source countries. There are even several hinterland areas that might be Venezuela, Guatemala. Or Kenya, Indo- China or Nationalist administrations as in Egypt or Argentina always reluctant national government are replaced with politicians willing to serve the interests of capitalist countries. Further whatever national output might have collected due to Western investment, but the problems of rapid growth of population, corruption by the local government, squandering of resources by the own ruling class of underdeveloped countries, profit withdrawals on the part of foreign investors make things worse.

### **2.2 Transition of economic development to Economic growth**

He suggests that there needs to be a transition from the economic development to the economic growth. It can only be achieved through a determined struggle against the conservative forces through a change in the social, political and economic structure of a backward stagnant society. In today's scenario of course it is quite difficult because underdeveloped countries are even aided through military supports in an international forum. This is in a way a hidden imperial bribe to the people in the name of political independence. Sometimes even if the political independence is achieved, their positions of Western masters are merely changed with the younger, more enterprising more resourceful imperialist power. Thus, he explains that where it is politically no longer possible to operate through the medium of the old fashioned and compromised colonial administrators and to impose its control merely by means of economic infiltration, American imperialism sponsors political independence of colonial countries, becoming subsequently the dominant power in the newly "liberated regions". Both methods of expansion of American influence can be studied in Africa, South East Asia and North East Asia. Baran explains that a considerable ideological campaign is being undertaken in order to sell this more subtle and less transport policy of imperialism to the public. These are therefore indirect manifestations of the reluctance of the advanced capitalist's countries to prevent the social, political, economic liberation of the colonial and dependent countries. Baran attempts to explain his term economic development as increase over time in per capita output of material goods. He considers it synonymous to economic growth and postulates the fact that it gets affected through changes in interlinked social organization, spurts in urbanization, decrease or increase of market shares. Thus increase in the economic development contributes to the increase in Gross National Product. In this context he refers to Colin Clark's work "The Conditions of Economic Progress". He explains that "Economic Progress" can be defined as an improvement in "Economic Welfare". And economic welfare further can be explained as an abundance of all those goods and services which are customarily exchanged for money. And that it can be increased with a change in its structure and distribution. Baran's economic development depends upon three things such as the aggregate resource utilization into productive processes, the increase of productivity per unit of resources through organizational methods. For instance - increase in working hours or rationalizing methods of production, society's technical arm may be increased by replacing old processes with new technological productive facilities.

### **2.3 The concept of economic surplus**

Baran further tries to explain economic development through the variable of economic surplus. (Economic surplus for him is similar to the Marxian notion of difference between aggregate net output and real income of labour). He categorizes economic surplus as actual economic surplus, potential economic surplus and planned economic surplus. In case of the actual economic surplus, the difference between society's actual current output and actual current consumption is marked. It is identical with current savings or accumulation and findings its embodiment in assets of various kinds. For instance- Foreign balances, gold hoards, productive facilities and equipments. Potential economic surplus refers to the difference between the output that could be produced in a given natural and technological environment with the help of employable productive

resources and what might be regarded as essential consumption. This is manifested through major four aspects such as – first, society's excess consumption by upper or middle class people. Second, the output lost to society's through the existence of unproductive work, third the output lost because of the irrational and wasteful organization of the existing product apparatus. Planned Economic surplus further refers to a product of nationalized and planned economy. The investment is made in such a way that profit accumulation is a must. It is a rational plan reflecting society's preference as to current consumption versus future consumption.

#### **2.4 Standstill and Monopoly Capitalist Movement**

Baran through standstill and monopoly capitalist movement tries to explain the direction of economic development. According to him the economic development depends on both size and the mode of utilization of economic surplus. And these in turn are determined by the degree of development of the productive forces, the corresponding structure of socio-economic relations and the system of appropriation of the economic surplus that those relations entail. For instance- The businessmen in making investment decisions are strongly influenced by population statistics and other infrastructural aspects such as schools, hospitals, parks etc. He further selects the population variable and says that a rapid increase of the population exercises pressure on the wage level and that in turn leads to higher profits, which in turn leads to promotion of the capital accumulation and rendering investment opportunities to capitalist entrepreneur. The internal migration from the non-capitalist sectors of the economy (subsistence agriculture, handicrafts) also adds to the pool of man power at the disposal of capitalist enterprise.

#### **2.5 Phases of Capitalism**

Baran categorizes capitalism into two aspects i.e. Monopoly Capitalism which is stagnant, sluggish, fat in nature. It is not productive but stabilizes profit. In monopoly capitalism, beliefs, values, convictions are under attack of giant corporations. It concentrates solely on profit making. The execution and control of the monopoly capitalism was very important. It however tries to promote social reforms through full employment policies which go in vain. Contradicting him however J.K Galbarith opines that government interventions can work really to provide employment. Monopoly capital has got a drive to secure control over state. But it always wants to be powerful puppet maker. It is only during severe political crossroads that it comes to the centre stage or else it remains away from political life. Monopoly capital can never work with full employment, because permanent labour would create scarcity of labour thus putting pressure and marginalizing the capitalists.

The other phase of capitalism as discussed by Baran is the progressive capitalism. Under the progressive capitalism the businessmen were anxious to sell their wares abroad. It is very dynamic in nature as compared to the monopoly economy. But certain limitations are marked here in case of the foreign trade activity. For instance Balance of International Payment (BIP). Markets here deals with small capital investment and depends on small capital movement as well.

### **3. Monopoly of Backwardness**

Baran explains the monopoly of backwardness and says that- "As the term underdeveloped suggests output in underdeveloped countries has been low and their human and material resources have been greatly underutilized, and unemployed." The capitalist order in these backward countries has brought economic stagnation and social backwardness. The economic surplus of these countries for the advanced countries in terms of total output is more but for them is less. In these backward countries majority of population is depended on agriculture and that their holdings are low and productivity per man and per acre land are also extremely low. Baran explains several classes in the colonial phases and peripheral or the backward areas such as the –first is the agricultural or the plantation groups, here the surplus are immediately going to the lands of the metropolis from the hither land. Second, merchant traders, who protects the interests of the "comprador bourgeoisie" and profit is channelled to the main lands. Third, the local, indigenous, capitalists cannot compete with the grand bourgeoisie because of the low wage, severe competition from the metropolis. And Fourth, State is also the worst sufferer as it is controlled by the "comprador bourgeoisie", and hence the bureaucracy flourishes and the metropolis capitalist grow.

Indeed in most of the underdeveloped countries the peasant's marginal productivity is so negligible that the departure from the agriculture of a sizable part of the rural population would not lead to a reduction of aggregate agriculture output. Under such conditions, Baran finds it difficult to explain whether economic surplus by foreign capital is greater advantage or evil for the underdevelopment countries. He explains these constructs in detail with respect to the advanced countries such as United States, Japan, Germany, France, Britain and Switzerland, as compared to the backward countries such as Nigeria, Greece, Brazil, Thailand, Latin America, Africa etc.

The advanced countries mainly extend three arguments for their presence in the underdeveloped countries i.e. such as first, the foreign investments enhances economic development of backward countries, secondly operation of foreign investment increases the native aggregate income, thirdly foreign investment indirectly stimulates infrastructural development such as construction of roads, railways, power stations etc. However the "modus operandi" is very different. And Western capital brings detrimental consequences by sucking raw materials from source countries. A rational system of imperialist exploitation acts as the base of the whole process.

### **4. Alternative Suggestion**

In suggesting the alternatives for the underdeveloped and the developing countries, he says that establishment of a socialist planned economy is essential for economic and social progress. For instance – The five year Plans in India from time to time has reflected socialist planning's to bring improvement in its economy. However failures in the planning targets are also sometimes marked. Such as in the Second Five Year Plan (1956-1961) under the P.C.Mahalonobis, blocking of India's

economic progress was marked. Secondly, underdeveloped countries must use the technological advancement of the developed countries, should use second hand equipments and move on the path of industrialization. Thirdly, there must be a just distribution of output proportions and rational utilization of the produced goods for the moral, material and socio-economic development of the underdeveloped countries.

#### 4.1 Some other Contributions of Baran and Comparison with Contemporary Dependency Theorists

Some of the other works of Paul Baran includes “The Political Economy of Underdevelopment, 1952”, “Marxism and Psychoanalysis”, 1960, “The Commitment of the Intellectuals” , 1961, The Political Economy of Neo-colonialism. In another work of Baran and Sweezy “Monopoly Capital ,a radical departure in the conventional economic analysis is marked. They are quite shy in identifying their pure Marxian origin and provides with the bold, independent, critically re-evaluated capitalist society, which is based on economic and social changes in 20<sup>th</sup> century America. Their theoretical advances are blend of orthodox economic theory especially of Keynesian and monopolistic competition theory on one hand and the Marxian historical and the organic approach to social structure and change on the other. Monopoly is used in the sense of including oligopoly also. This pre dominance is has become so germane to economic behavior that treatment of monopoly as a special case of the competitive model leads to a patch work and inadequate theoretical reconstruction of reality .Further, by the same line of reasoning ,the typical economic unit is no longer the business enterprise buffed about by market forces but a large scale- enterprise producing a significant share of the output of an industry or even several industries and able to control its prices the volume of its production and the types and amounts of its investment. The focus then is on large corporation as the centre of economic power and decision- making .Moreover, the typical economic unit is taken as the corporation controlled by self perpetuating inside management. While large accumulations of wealth by individuals and families provide potential power, the exercise of this power requires in the typical case of the actual entrance into the corridors of the corporate executive offices.

Baran and Sweezy rejects the notion that this newer form of the economic organization alters in any fundamental sense profit maximization as the guiding principle of business operation. It in addition adds longer time profit maximization, the reduction of risk taking and a degree of accommodation among the aristocrats of the corporate world. Under the monopoly conditions, three features of corporate power introduce a major departure in relations to these categories. The potential rise in profits ever larger share of national The potential rise in profits as an ever larger share of national income is traceable to the combined effect of the i) ability of the corporation to control prices, ii) the drive to reduce costs as a condition for maximizing profits, iii) the nature of non price competition in the producers good industries as a persistent stimulus to cost reduction. This potential rise however, creates a new set of economic problems and in the adjustment to these problems; profits are diverted to other channels. Hence this tendency needs to be considered in the broader context of social surplus.

Amit Jyoti Sen from Indian Institute of Management, Calcutta analyzes the dependency theory and its contemporary relevance. He provides the comparative analysis of the dependency theory from Western perspectives i.e. Cardoso, Santos, Wallerstein, Baran. The indigenous perspective of Dadabhai Naroji, Dutt Romes Chandra etc is also reflected. He explains the theory which states that underdeveloped country's backwardness is not the result of tradition rather the coercive and exploitative sucking of the advanced, wealthy, core states from the periphery to maintain their economy. He also analyzes the dependency theory as anti- westernization and substantially deals with the synonymous apprehensions of modernization and westernization. Analysts such as Fernando Cardosos, Celso Furtado and Theonitio Dos Santos developed this theory aftermath. Their variant did not just focus on the symmetrical relations between countries. It looked at linkages. It held that dependency was perpetuated by ties among the groups and classes both between and within nations. They identified interest networks- business, bureaucratic and the military- that bind the dynamics of local political and economic processes to interests in the industrialized world. They also conceived of various degrees of dependency for different countries, and also allowed for the possibility that the nature of dependent relations could change over time. Moreover their explanation of underdevelopment was less deterministic than that of the Marxist in the developed countries such as Paul Baran and Ander Gunder Frank. The American Sociologist Immanuel Wallerstien refined the Marxist aspect and called it the “World System”. He said that at one time all were mini system existing in isolation. Then emerged the world economies. These came in two variants such as one with a common political system (world empires), and one without such a common system (world system). Till the advent of the Capitalism world economies were unstable “countries” more correctly regions were prone to take over by a group leading to the establishment of world empires

#### 5. Critical appreciation of Baran

Baran thought in terms of Stalin opining that each socialist country, assisted by other similar socialist country builds its own socialist network, which further helps in building up a rational organization of world economy. This is however different from Marx's view as he holds that Socialism will appear as an international structure based on the world economy, built by capitalism. However Baran here undermines the importance of international recognition of socialism. Baran fails to consider that each succeeding social system had to braek through the narrow and restrictive geographical limits that governs the productive forces. Thus in order to survive the world economy both nationalization of means of production and introduction of world citizenship is required. The Baran Sweezy theory of “Monopoly Capital” and the concept of economic surplus require a further resolution in order to become a working tool of analysis.

Moreover, no explanation is provided by Baran on the possible range or degree of flexibility of the surplus, i.e. Actual, or potential economy. The yardstick to measure such variable is hazy. Further no claim is made that the rate of productivity increases under monopoly than under “free competition” .Hence the argument of relative rise of surplus relies not on technological development but on the institutional changes by which surplus is generated. So here the pertinent question arises

that are then limits on the amount of surplus that can be created? And if it's optimistic then how can one determine the upper and the lower limits of surplus. And the last but not the least the alternative provided by Baran to have a planned socialist frame seems utopian and far reaching from the present situation of the underdeveloped countries.

## 6. Conclusion

Thus, he concluded saying that the human race is caught in a situation as concrete as a pair of shoes two sizes too small. But the pair of shoes is monopoly capitalism and imperialism. The dilemma that the majority of mankind faces today is either to liberate itself from both or to be cut down by them to his size of the crippling clogs. Despite of several limitations to the political economy of growth theory, Paul A. Baran still remains as a land mark Marxist economic theorists which bring thought provoking excitement for each scholar within and beyond the ambits of Marxism.

## Acknowledgement

I am thankful to Professor Rowena Robinson for encouraging me to complete the work and letting her guidance to me. I heartily express my gratitude to Dr. Kalindi Jena, Associate Professor in Sociology in Ramadevi Women's College for lending her valuable time to proof check the review script. I am also thankful to Dr. Durga Sankar Senapati for putting his valuable inputs into the work. I am also grateful to my friend Soumya for his continuous support to complete the work. I am also obliged to the rich library of Jawaharlal Nehru University, whose pillars of knowledge helped me to frame this work in a beautiful manner.

## References

1. Baran A. Paul (1957) *The Political Economy of Growth*. Monthly Review Press, New York.
2. Baran A. Paul (1952) *The Political Economy of Underdevelopment*. Menchester School Press, England.
3. Deepak K. Lal (1980) *The poverty of Development Economics*. EDCC Press, United States of America.
4. Frank.A. Gunder (1972) *The Development of Underdevelopment*. Garden City Press, New York.
5. Marx Karl (1853) *The Future Results of the British Rule in India*. Tribune Press, New York.
6. Santos D. Theotonio (1971) *The Structure of Dependence*. Boston Press, New York.
7. Sweezy, Baran (1967) *Monopoly Capital*. *Economic Development and Cultural Change*, Vol. 16, No. 1. 145- 150.
8. Sen A. Jyoti (1982) *Dependency Theory- How relevant is it today*. Indian Institute of Management Press, Calcutta.