

# **ECONOMIC INTEGRATION**

**(Regional. National and International)**

**R. R. Kale Memorial Lecture, 1961**

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# ECONOMIC INTEGRATION

## - Regional, National and International

Recent economic literature has exposed a rich strand of thought bearing on the concept and implications of economic integration. The theme has acquired considerable significance in view of the changing behaviour patterns of economic groups in the process of economic change,—a context which is important for developing economies which are neither in equilibrium, nor in sight of equilibrium. Economists have been trying to re-align their sights, and new vistas are emerging, which may transform our basic thinking and methods of research in many ways. I hope to present in the course of my lecture the results of recent explorations in this field.

Literally, integration does not mean anything more than assembling parts into a whole. Until recently, as Myrdal has pointed out, the term was used by cultural anthropologists to characterize a stationary primitive community held together in a Malthusian population balance, with fixed mores and fixed patterns of division of labour and division of functions and responsibilities. The economist's counterpart of this static view of integration was the notion of a community held together by division of labour, specialisation and exchange operating through a freely competitive market economy, which was supposed to bring about automatically economic integration on the basis of 'harmony of interests'. The economists of the 19th century were not dealing with static, primitive economies. Malthus was realistic enough to point out the disturbing implications of population imbalance. Ricardo's cold realism exposed the conflict of class interests and lack of solidarity in a competitive society resting on the foundation of division of labour. Nevertheless, it seems, in retrospect, that somehow the world of assumptions built up by the classical economists was treated as if it were the real world.

A fruitful implication of the classical concept of economic integration was the elimination of the spurious political frame of reference implied by the term 'nation'. Adam Smith, the author of 'Wealth of Nations' no doubt emphasized the contrast between 'opulence' and 'defence', but his basic approach was cosmo-political. He did not lose sight of a unified world community integrated by division of labour and specialization and exchange and saw no difference between interregional and international division of labour. In fact one can reasonably argue that the classical economists gave the term 'nation' an economic connotation shorn of its political meaning and thought in terms of territories within which there is free mobility of factors of production to an extent that factor prices tended towards equality, so that such 'nations' may be either political nations distinct from one

another, or regions, within the same political territory, which are economically disintegrated in relation to one another.

The basic thinking of the classical economists on the concept of economic integration has been handed down to our generation. The *nuance* has no doubt changed and the interpretation has become sophisticated in many ways, but the basic ideas have endured. In the first place, the discarding of the spurious political frame of reference has led to the modern sophisticated theory of interregional trade—a kind of general theory which presents a view of economic structure and processes unclouded by political distortions. According to this view the economic structure and the dynamics of the economic processes show discontinuities which may characterize interregional economic relations within a particular political territory as much as, if not more than, discontinuities which one may come across at the frontiers of contiguous, complementary political territories which form parts of a broad geographical region. We have by now a good operational definition of an economic region such as the following: ‘An area within which movement is *relatively* free (resulting in a *comparative* uniformity of prices, costs, conditions of work and production, etc.), while it is divided from other regions by physical and psychological costs of movement between them’. Moreover, the conception of factor mobility has now acquired a wider sociological significance. Are not there groups of people which are socially and economically distinct? Consider, for example, the problems involved in trade between local groups, specially if looked at in terms of very broad groupings found over most of the world, such as profit-receivers, rentiers, professional classes, salaried and managerial classes, foremen, craftsmen, semi-skilled artisans, labourers, unskilled women workers, etc. Movement between these groups is as difficult as that between localities and, with a rigid caste system, or its equivalent in trade union organization, may even be absolutely impossible. In many ways the problems posed by these groups are more acute, more fundamental and more interesting than questions of trade between local groups or even of what may be called international trade. If one were able to track down the transactions of these groups with the rest of the world one will come against all the old familiar practical problems of unfair competition, the necessity of protection, balances of payments and terms of trade, which would be presented in the same way as when the groups are political units.

There is, however, a second less rewarding way in which the inheritance of classical ideas is sought to be handed down to the present generation. I am referring to the purely functional view of economic integration as the free functioning of a market economy sustained by division of labour. The extreme exponent of this view is Wilhelm Röpke. The classical economists, or at any rate some of them, saw the international economy in the image of their own conception of an integrated national economy. Röpke does the same. To him an integrated developed economy is “a market and price community which rests on a payments community and localization of production in keeping with the principle of division of labour”. The ideal

type of economic integration occurs when free competition, particularly in factor markets, prevails as also a common currency system. Röpke considers cases of economic integration under different conditions in the real world as deviations from the ideal type and would maintain that in developed economies there is economic integration conforming to the ideal type that he constructs *a la* classical economists, in spite of frequent limitations on competition. It is flattering for people living in developed economies to be told that their economies conformed to the ideal type, were it not for the reminder that what Röpke conceives to be economic integration turns out to be disintegration in a real sense and that his theoretical model is too static to be real for changing economic societies fissured by socio-economic tensions. The dynamics of development and underdevelopment, of the widening of economic inequalities and of social distance, is a reality which obviously does not fit into Röpke's static world view.

Röpke projects the image, as he sees it, of an integrated, developed economy to the international economy. He says, "if anything deserves the name of international economic integration, it is the world economy as it developed up to 1914." He does not stop to enquire whether it was just cussed belligerence which shattered this ideal fabric during the war of 1914-18, or whether the development of economic structures and processes and of forces of production far transcending the limits of national territories, as well as the contradictions and tensions of the competitive system, were not responsible for a fundamental kind of both national and international economic disintegration which culminated in a global war. His main preoccupation seems to be to demonstrate that the "world economy" was integrated to the extent to which it was merely an integrated national economy writ large on a global scale. Thus he says: "An international currency system, the gold standard, which made national currencies freely convertible into each other and into a common standard metal—moreover, at stable exchange rates—secured a perfect virtual multilaterality, which in its turn produced the international market and price community that distinguishes the world economy quantitatively but not qualitatively from a national economy." Of decisive significance, according to Röpke, were two basic factors of economic integration, viz. (1) international mobility of factors of production and (2) free convertibility of currency. Thus disintegration which set in later was the result of the destruction of the market, price and payments system which had held together the world economy. The forces of destruction were let loose by nationalistic economic policies and economic planning, which Röpke vaguely labels as "collectivism". Since international collectivism was impossible to achieve, except under a collectivist world despotism, national collectivism became the anti-thesis of such international economic integration as had been achieved under the 19th century liberalism. Röpke's rigorous deductive logic thus leads to the conclusion that international economic integration would require the reversal of the entire trend—abandonment of national economic planning, removal of trade restrictions, restoration of an

inter-communicating price and payments system, and seeking a global solution to the problem of integration rather than a less than universal solution like a regional payments union, a customs union, a regional trade bloc or a coal and steel community, as in Western Europe.

Apart from the fact that one cannot conjure up the pre-1914 world by a wave of the magic wand, Röpke's theory of economic integration has serious limitations. As I have said, it is *static*. His is a narrow *functional* approach. It is also a *negative* approach. His concept of economic integration lacks positive content and is based on the denial of possibilities of institutional regulation and planning directed towards evolving forms of economic cooperation, co-ordination and unification which meet the requirements of the present day social reality.

It is, therefore, only natural that more rewarding attempts should have been made by contemporary economists to place the concept of economic integration—regional, interregional and international—in a positive perspective.

Was the world economy prior to 1914 an ideal world? Let me avoid non-economic value-judgement and stick to the narrow economic frame of reference. Before 1914 only part of the world was integrated. The most important of the sections of the world population living in colonies and backward areas were excluded from the pale of the integrated world community of the Western nations. Capital flows, movement of labour and flow of trade among the small number of advanced countries and between these countries and the economic *enclaves* wedged into colonial areas kept up the appearance of stable economic integration. Röpke's integrated world community was almost like Periclean Rome. It excluded the major part of humanity from the blessings of economic development, which are supposed to be generally diffused in the community through the system of division of labour and exchange. The formerly dependent peoples have now given up their passive role on the basis of which international economic integration was sought to be achieved in the previous generation. The consequent disintegration that followed is, therefore, more apparent than real. In fact, the real problem has been posed for the first time in our generation and we obviously need a new concept of integration to be able to face it squarely.

As an old-fashioned admirer of an old economist, Alfred Marshall, I find that the seminal ideas underlying such a new concept are contained in the following extracts which I quote from his *Industry and Trade* published almost forty years ago: "the notion of national trade has been bound up with the notion of *solidarity* between the various members of a nation. The trade of one individual with another is mainly of private concern: while the causes which enable large quantities of any thing to be made for foreign sale at a profit, generally lie deep down in resources and faculties that are not wholly individual but are in great part the *collective property* of the nation as a whole...we are indeed fast approaching the conditions under which the relations between the various industrial strata of a civilised nation are i .

based on *reason, rather than tradition*.....It is being increasingly clear that this and every other Western country can now afford to make *increased sacrifices* of material wealth for the purpose of raising the quality of life throughout their whole populations". (pp. 4-5. Italics mine). Speaking of economic inequality in his introduction to this book, Marshall said : "the causes of inequality were not wholly beyond human control. They might probably be so modified as to bring about a nearer approach to *equality of conditions* and a better use of the products of human effort for the benefit of humanity." (p.vii).\*

The key ideas in the passages I have quoted are (1) solidarity; (2) reason, rather than tradition regulating class relations; (3) ability of favoured groups to make sacrifices for raising the quality of life of the population as a whole; and (4) "equality of conditions", which is another way of expressing the idea of "equality of opportunity". I have no doubt that these elements form the positive content of the concept of economic integration. Where they are lacking one should expect economic disintegration. One can, in fact, arrange modern national economies in terms of the degree of integration or its opposite in the order of the frequency distribution of these elements. Marshall's context is that of a national economy. But the content and criteria of economic integration would be the same, irrespective of whether we think of a region or the interregional economy or the international economy, because, as I have said, the political frame of reference is spurious in the broad economic context with which I am concerned in this lecture.

While Marshall's context is that of the national economy, Myrdal has defined economic integration in the context of the international economy. In his book, *An International Economy*, he says : "Economic integration is the realization of the old Western ideal of equality of opportunity." Here what strikes the keynote is Marshall's concept of solidarity which is the cause as well as the effect of equality of opportunity. Neither a national economy nor a world economy is integrated so long as there is inequality of opportunity and unequal remuneration for factors of production due to inequalities of factor endowment in different regions and the vicious circle of underdevelopment. At the international level particularly there is the problem of integrating the far larger submerged part of mankind with the partial world of advanced and progressive countries. Myrdal goes far beyond Röpke when he says that migration, capital movement, international aid and trade are not the primary means of achieving this integration. "In a real sense they are the products of integration, not the cause. They can help, but they cannot be relied upon to do the job. The major task is to force economic development in the underdeveloped countries" (p.p. 3-4). From the operational or functional point of view an integrated community, according to Myrdal, "will modify the rules of economic competition if changes in

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\* It is interesting to note Marshall saying in this context : "I developed a tendency to Socialism".



prices impose too drastic a decline in the income of any one sector, or require too sudden shifts in resources or, more generally, if the community favours a course of economic development other than the one that would result from the free play of market forces" ( p. 25 ). This is a far cry from Röpke's theoretical model of the self-governing market economy.

At this point of the analysis search for equality of opportunity links itself up with economic development. It is economic development which creates a sufficiently wide range of economic opportunity, without which equality of opportunity does not make sense. The theoretical base of this line of thinking is provided by the discovery that there are no automatic forces at work towards an equalization of welfare. According to the familiar argument of ' factor price equalization ' free trade in final products is a complete substitute for movement of population or capital, so that, granting free trade, specialization of rich countries in capital-intensive production and of poor countries in labour-intensive production will make it possible to ensure equality of wages rates and interest rates in both types of countries. As Tinbergen has said, further research has shown that the proposition is not of general validity. " If the differences in capital intensity between industries are smaller than differences between countries the equalization of wages and interest is not possible.....An even greater difficulty arises if the capital intensities of the various conceivable industries are each of them higher than the capital intensity of the country ( i.e. the ratio of the quantity of capital available to the quantity of labour ). In such a case not even all labour can be employed for lack of capital " ( *International Economic Integration*, p.137 ). While admitting that " the only solution for the problem of diverging standards of life is in a more intensive movement of factors ", Tinbergen comes to the conclusion that " essentially what is needed is the *integration of the process of development*; the growth of a country should not be considered a problem only regarding that one country and to be accomplished practically with the country's own investment. It is part of a *world problem of equilibrated growth*. " ( *Ibid*. P. 138. Italics mine ).

The essence of this line of argument may be perfectly relevant to the problem of equalization of welfare amongst the different regions of a large political territory. We have empirical experience of two typical regions forming parts of distinct political nations, which shows how this argument is relevant to the interregional situation within a country. We have, first, the oft-quoted case of the Southern regions of Italy. Before the political unification of Italy these were predominantly agricultural, backward regions, as compared to the northern regions of Italy. Still they possessed an industry protected by high duties. It was thought that their assimilation into a wider national market would stimulate economic development through investment attracted by low wages in the South. This did not happen in the absence of a developmental plan. What actually did happen was that industry in South Italy was destroyed as the result of the removal of the tariff barrier. The industrial north subsequently benefited from the newly created national

market and from the extremely high protectionist tariff. But since no special steps were taken to promote economic development in the Southern region it just stagnated. At the same time its standard of living went down as the result of the deterioration of its terms of trade caused by the higher prices of industrial products due to high protective duties. Capital instead of flowing to the south flowed in a reverse direction to the north. These were what Myrdal calls the "backwash effects" of industrial development in certain favoured localities while the surrounding regions are like a backward and stagnating hinterland. The second instance is that of the southern part of the U.S.A. This part of the U.S.A. had stagnated since the civil war up to 1930's. The poor whites of the south were American citizens who spoke the English language and one should have expected them to migrate to the industrial centres of the north and take the place of European immigrants who clustered there over whom the southerners had an advantage. But heavy migration from the south did not occur. The economic stagnation of the south was eventually overcome to some extent under the New Deal economic planning and the process of real integration of the south into the rest of the U.S. economy was completed only during the period of the second world war.

I suppose that the analysis that I have presented so far must have made it abundantly clear that economic integration in whatever context we view it is not merely a concept but also a problem. It is a problem to the extent that, like democracy, it is a process. It is also a problem to the extent that in real life one finds different degrees of economic disintegration in changing economic societies. It is also evident that the proper approach to this problem is not merely functional but primarily institutional. As such it is also a problem of Political Economy in its rather old-fashioned sense. Forms of political organisation and the distribution of political power are thus closely relevant to the degree of economic integration which a community is able to achieve. At one end of the scale we may conceive of a totalitarian government which monopolizes all resources and the various regions and industries are more or less efficiently integrated to serve the ends of the government. At the other end of the scale there is the modern "Welfare State" which functions in a complicated kind of way without a centralised locus of power but with decentralisation of authority, local autonomy, and autonomy of individuals and organisations trying to influence decisions and concrete action through a system of checks and balances and countervailing power. As Svernilson says, "the national accounts may be said to symbolize the economic integration of the welfare state. National income is regarded as a common asset which is redistributed by fiscal, monetary and other policies. In principle in a welfare state all groups and regions are regarded as having the same rights to welfare and as a result of the parliamentary equation, equalizing income transfers are made to old people, children, sick people, unemployed, local communities with a weak income base and sometimes to weak industries. Progressive tax systems reduce the differences in personal income. Price

support programmes and import tariffs, taxes on corporations form other parts of this system of income redistribution. Regional equality of standards tends to be maintained by government contributions to schools and social services, by running nationalised transport in less developed regions at a loss and by an all-inclusive national electricity grid system." (*The Nation in Economic Analysis*, in the symposium, *The Economic Consequences of the Size of Nations*. p.p. 5-6). The details vary in different welfare states, but Svernilson's description is typical of small progressive nations with a high rate of growth of productivity, a high sense of democratic solidarity, a fairly high degree of economic equality and a high degree of economic integration.

The case of a large country which is a federal union is somewhat different. It is not that it cannot achieve economic integration. The U.S. economy is a conspicuous example. But from the point of view of economic analysis the discontinuity of economic relations in the case of a federal nation "may, in fact, be as marked, or even more clearly marked, at the borders of each State as at the borders of the federation" (*Ibid* p. 3). Thus in the U.S.A. a vast mass of literature on what is called regional science analysis has accumulated in recent years. It seeks to lay bare the dynamics of economic integration, particularly the imbalances accompanying it and the nature of the adjustment process through the application of the international trade theory on the assumption of a dynamic open economy to the problems of inter-regional trade in a large country like the U.S.A. I am convinced that the new vistas of research which have already opened out ought to attract research workers in India because the federal nation in a large political territory like India has also to seek economic integration through the instrumentality of a welfare state before the sands of time run out.

Some of you will perhaps recall that in the course of my presidential address delivered at the 38th session of the Indian Economic Conference held in 1955 in this very city I tried to present a unitary theory which can help us to understand the functioning of a loosely integrated interregional economy, with non-competing groups as its constituent elements, with the aid of analytical tools derived from the tool-box of international trade theorists. In the light of what regional science analysts have been trying to demonstrate with the help of comprehensive and yet meticulously precise statistics of a micro-economic character I must confess that I was too modest and hesitant. Let me try briefly to present a few samples of the new lines of research with which I have acquired some familiarity only recently.

First, let me refer to two major alternative theories which are designed to explain the phenomena of what an American writer has preferred to characterise as "subnational growth". Rather, they are *concepts* by means of which aggregative data can be significantly organised to throw light on the regional growth process. There is first what is called the export-base theory. It is based on the hypothesis that the factor which initiates growth and determines its extent is the export base of a city or a region. Growth begins in

response to an increase in demand originating outside the region. There is an expansion of local trade and service activity by a multiplier process. The investment multiplier as well as the foreign trade multiplier operates in the same complicated manner in which they are supposed to operate, in terms of national income analysis, in an open economy. Capital investment flows into a region to develop its export industries by bringing about an improvement in their productive efficiency and also by developing the specialised services ancillary to exports. The resulting generation of income augments the demand for secondary products and induces investment in a number of industries. The external economies thus created strengthen the basis of residentiary industries which become export industries by overcoming transfer-cost disadvantages. Foot-loose industries may also develop into export industries. When, however, the region matures the principal base becomes less significant. According to this piece of analysis the growth rate of the region will depend on the rate at which the export base expands in response to the increase in the external demand for its goods and services. This theory emphasizes the link of the region with the wider national or even international demand factors. But it pushes to the background the interregional linkages, because the analysis runs in terms of the region in relation to the "Rest of the World"—a concept familiar in national income analysis.

The other alternative theory is the economic-sector theory. Its basis is Colin Clark's formulation that a rise in per capita income leads to a decline in the proportion of the labour force employed in the agricultural sector and a rise, first, in the sector of secondary activities and then in the sector of tertiary activities. The sector theory emphasizes internal development of specialization and division of labour resulting from shifts in the relative importance of the three sectors, which, again, are due to different income elasticities of demand for their products and the different rates of change in labour productivity. Economic growth as measured in terms of the volume of economic activity, or in terms of increase in per capita income, is thus seen as the consequence of inter-sectoral shift of the labour force. The sector theory, taken in conjunction with the location theory, has produced the theory of stages of regional development starting from the subsistence economy to specialisation in primary production based on interregional trade, and then to the stage of secondary production characterised by the development of processing industries followed by manufacturing, and then to more diversified industrialisation, and, finally, to tertiary activities including the export of capital and skill and expert labour to less developed regions. An interesting deduction from the sector theory is the strategic importance of what are called "growth industries".

The export-base theory errs on the side of underrating the internal growth factors and regarding residentiary employment as a passive factor and 'services' as 'dependent'. The export-base approach becomes significant when the size of the region is large. Treating a number of regions as one region with a common export base may, however, yield useful results. But this theory

does not yield satisfactory results when a region has already developed a variety of export industries. Interregional relationships, relationships between the nodal centre and the hinterland as well as the link of the region with the national economy are strategic to regional development, but these cannot be tracked down with the aid of the export-base theory.

The sector theory goes to the opposite extreme of underrating the external factors. Apart from the difficulties inherent in the grossness of sectoral aggregates, the activities subsumed under the 'primary', 'secondary' and 'tertiary' categories have varying significance from the point of view of economic growth.

Interregional relationships are also being analysed in terms of a broad-based location theory. The study of interregional trade is the reverse aspect of the study of the location of industry. From another point of view location of industry is the geographical expression of division of labour. Location theory is, therefore, a key to the understanding of interregional economic integration. A good deal of work has been done on important aspects of the location theory, such as "agglomeration", "nodality" and "access to inputs and markets" in terms of "transfer costs", in the context of regional growth and integration. Regional growth is not simply an end-result of a series of separate locational decisions. Every new investment or increase in inputs and outputs is followed by a sequence of related economic effects such as changes in the volume and composition of output and of exports and imports and in income and household purchases. The induced investment and the resulting expansion are different for different types of export industries. A hosiery mill in a backward area will normally generate little secondary growth in terms of residentiary or service activity, because its input-output ties are almost entirely external. A steel mill may have an altogether different series of effects. We have instances of 'enclaves' maintained by foreign enterprise in colonial areas, which are loosely related to the rest of the economy in respect of input-output ties. The same may be true of industrial activity located in the backward regions of underdeveloped countries.

A study of regional and interregional integration has also proceeded on the lines of input-output analysis. If an input-output table can be constructed it can reveal the characteristics of production and distribution in individual industries in different regions and the nature of the interrelationships among these industries, i.e. the inter-industry relations within a region and also among regions. Considerable progress has been recorded in applying input-output techniques to regions within nations. Even tables of capital flow and "capital co-efficients" have been constructed to form the basis of interregional linear programming. Such attempts have their limitations, but they throw light on many obscure facets of regional and interregional division of labour, specialisation and what is broadly called comparative advantage understood in relation to location of economic activity.

In this connection a good deal of attention has been given to the inter-

regional commodity flow and interregional balance of payments. Commodity flow analysis can show concretely how and to what extent a region can benefit by the natural advantages of other regions through imports and how it can compete with other regions or sub-regions in the disposal of its exports. Money flow studies can also form the basis of suitable credit and tax policies within a region and in the nation as a whole. With the current tools and methods it has not been possible even in U.S.A. to integrate the commodity flow and money flow data into a comprehensive picture of regional balance of payments. But such inadequate attempts as have been made have thrown interesting light on the variables involved. After all, a region must balance its income and expenditure to remain economically solvent or to avoid loss of assets. If it cannot pay for its imports on current account it will tend to lose bank reserves and suffer deflationary pressure. This can easily happen if its terms of trade suddenly deteriorate very sharply owing to its dependence on export industries, the products of which are liable to violent and simultaneous fluctuations. If this happens frequently enough economic growth is arrested and there may be downward pressure on existing levels of income and employment.

This brings me to the question of the regional cycle for the study of which economists have been tempted to press into service the multiplier analysis. Many regions in the world have gone through severe upward or downward fluctuations in the course of their economic development. Many of these fluctuations are avoidable and, therefore, a study of the crucial factors generating these fluctuations is so important from the point of view of regional and interregional economic integration. A development policy for a region has got to take into account its possible cyclical implications. A valuable approach is the study of what is called the 'industry-mix' in a certain region. Different industries or occupations may be such that their cyclical fluctuations may offset one another, although there may be the residual problem of 'depressed areas'. A region may have a basic industry oriented towards a wider market. The fluctuations in the basic industry have a multiplier effect. This consideration leads to the 'economic base' study which is focussed on the ratio of employment in basic activities to employment in non-basic activities—a ratio which gives a magnitude to the regional multiplier. When, however, we turn our attention to the system of regions we discover that it is important to know the degree of sensitivity of regions to cyclical fluctuations. The exports of region A are the imports of the contiguous region B, and, through trade, cyclical fluctuations have a tendency to spread. One has, therefore, to think in terms of an interregional trade multiplier. The question may then naturally arise, what is the relation of national fluctuations to regional fluctuations? Are national cycles merely weighted averages of regional cycles? The answer to this question involves a study in interpretation, which may have to go into the history of sequences and of the growth of 'strategic' factors in the separate regions and in the nation as a whole.

Let me indicate briefly a few interesting results yielded by a study of the industrial composition in relation to the regional cycle in U.S.A. Some studies in U.S.A. have shown that concentration of durable goods industries does not make a region specially sensitive as regards response to initial stimuli. Others have shown that there is no direct and simple association between the industrial pattern and the *duration* and *amplitude* of the cyclical fluctuations. The position thus is unclear. A fruitful hypothesis has, however, emerged viz. that for regional cycle analysis it would be significant to distinguish between regions with high rates of growth and high growth potential and regions which show low growth rates and are relatively stagnant. During a depression investment opportunities accumulate in areas of high growth potential, and when the upturn comes there is a rush of investment, a rapid rise in output, employment and incomes, in-migration of labour which keeps wages comparatively low or prevents them from being unduly high, and an expansion in residentiary industries.

One feels perhaps a little out of breath after this reconnaissance in a somewhat uncharted field, and I must bring the operation to a close. I would like, however, to draw a few tentative inferences from the trends of thinking that I have analysed. It is clear from the results of empirical research on regional economic problems that comparative advantage which is traditionally regarded as the basis of regional division of labour and specialisation and trade is neither exclusive nor permanent in character. It is the result of a combination of natural endowment, enterprise, skill and labour in varying ratios and its valuation depends on the transport cost and on the impact of demand. It is unstable and may be undermined by invention and discovery or cheapening of transport. The relative scarcity of capital or labour may be offset by the impact of these dynamic, exogenous factors. It may be argued that concentration of attention on 'static costs' engenders a narrow and parochial view of regionalism which, apart from its political implication, is not conducive to the sound economic growth of a low-level interregional economy in terms of higher levels of productivity. A dynamic factor such as lowering of transport cost no doubt upsets the pattern of division of labour, but it also leads to economic re-integration on a higher level of productivity. A centre of specialised production may be associated with a more or less wide range of non-specialised production. Transport cost sets the limit within which decentralised production continues in areas where comparative advantage is less and prevents concentration of production in an area in which comparative advantage is greater. The consequence of expansion and cheapening of transport in a growing economy is that widespread and generalised production is replaced by specialised production and that intra-regional trade is replaced by interregional trade. This involves painful readjustments in the patterns of production of different regions. Should this be an argument for erecting artificial barriers to interregional trade? The answer to this question is not an isolationist, defensive attitude to technical progress and cost-reducing, dynamic factors, but a planned effort to moderate the

violence of the readjustment and to induce economic development on the lines of creating new and better job opportunities.

There are, in fact, two possible lines of development: One is to create conditions under which through lowering of transport costs, among other things, generalised production and intra-regional trade in local areas are replaced by specialised production leading to interregional trade. There will be painful readjustments which may be interpreted as a price which the community pays for economic progress. Assuming that these readjustments are in fact completed, they will not necessarily prevent sharp unevenness of relative economic development among regions, so that the gap between them may even become wider. This will naturally create tensions and obstruct the process of real economic integration, as I have interpreted it.

But there is fortunately an alternative line of development. Suppose the community decides very sensibly that the painful readjustments imposed on particular groups of producers without any compensation is unfair specially in a poor country and that the social cost of unemployment is too high. Suppose it prepares a plan for ensuring that persons likely to be thrown out of employment owing to readjustments in the pattern of production are not required to migrate elsewhere in search of employment but are absorbed in occupations created by economic development within the region itself. This will certainly be a better alternative, specially if the plan of economic development is aimed at an improvement in the quality of employment through inter-sectoral shift in the labour force and more balanced distribution of labour between primary, secondary and tertiary economic activities. Under this kind of planning each region may be required to aim at the optimum utilization of its economic resources. It will have a *distinctive* economic base and will specialise in those branches of production in which it enjoys differential advantages, but it will also have a sufficiently *generalised* and wide base of economic activities. Each region will thus have a fair share of small, medium and light industries. Heavy industries must be located at strategic points in the economy. Instead of raw materials seeking industries, industries will seek raw materials. This trend will have to be planned, first, in the case of processing industries and industries allied to agriculture. Hydro-electric grids, transport development and a general diffusion of an atmosphere of industrial pursuits will be the main factors through which the capital base of the economy will be widened and deepened and an underdeveloped country will be able to achieve both regional and interregional economic re-integration without severely painful readjustments which have accompanied the initial process of economic growth in many countries in the past. It will be evident, however, that in the context of such a pattern of economic development the boundaries of a region will get blurred. One will get a picture of economic regions which will be more broad-based than the advocates of narrow regionalism would care to concede. At the same time the outline of a region will be far less kaleidoscopic than if nothing were done to assist the formation of stable economic regions of the kind that I have illustrated.



## R. R. KALE MEMORIAL LECTURES

<i>Lecturer*</i>	<i>Subject</i>	<i>Year</i>
1. V. G. KALE	<i>Modern Tendencies in Economic Thought and Policy*</i>	1937
2. G. S. GHURYE	<i>The Social Process†</i>	1938
3. B. R. AMBEDKAR	<i>Federation Versus Freedom</i>	1939
4. K. T. SHAH	<i>The Constituent Assembly*</i>	1940
5. A. V. THAKKAR	<i>The Problem of the Aborigines in India†</i>	1941
6. V. L. MEHTA	<i>A Plea for Planning in Co-operation†</i>	1942
7. S. G. VAZE	<i>The Formation of Federations</i>	1943
8. JOHN MATHAI	<i>Economic Policy*</i>	1944
9. S. R. DESHPANDE	<i>A Statistical Approach to Vital Economic Problems*</i>	1945
10. J. V. JOSHI	<i>India's Sterling Balances*</i>	1946
11. C. D. DESHMUKH	<i>Central Banking in India : A Retrospect†</i>	1948
12. D. G. KARVE	<i>Public Administration in Democracy†</i>	1949
13. H. L. DAY	<i>Policy of Protection in India</i>	1950
14. M. VENKAT- RANGAIYA	<i>Competitive and Co-operative Trends in Federalism</i>	1951
15. A. D. GORWALA	<i>The Role of the Administrator : Past, Present and Future</i>	1952
16. LAXMANSHASTRI JOSHI	<i>Indian Nationalism*</i>	1953
17. W. R. NATU	<i>Public Administration and Economic Development†</i>	1954
18. P. C. MAHALANOBIS	<i>Some Thoughts on Planning in India*</i>	1955
19. S. K. MURANJAN	<i>Reflections on Economic Growth and Progress</i>	1956
20. B. K. MADAN	<i>Financing the Second Five Year Plan</i>	1957
21. V. K. R. V. RAO	<i>Some Reflections on the Rate of Saving in a Developing Economy*</i>	1958
22. K. P. CHATTOPA- DHYAY	<i>Some Approaches to Study of Social Change</i>	1959
23. B. VENKATAPPIAH	<i>The Role of the Reserve Bank of India in the Development of Credit Institutions</i>	1960
24. B. N. GANGULI	<i>Economic Integration — Regional, National and International</i>	1961

\* Not published.

† Out of print.

N.B. No lecture was delivered in 1947.