Letters to the Editor

A Clearer View of Growth

IN his article "The Long View of Growth (*The Economic Weekly,* March 1, 1961), Shri Vinode Dubey has taken a misconception and expanded on it. The original presentation of Shri Dubey's idea is found in the article by Leibenstein and Galenson entitled, "'Investment Criteria. Productivity and Economic Development"*(Quarterly Journal of Economics,* August. 1955). A fundamental correction of the Leibcnslein-Galensou thesis is given in A O Hirsehman and Gerald Sirkin. "Investment Criteria Once Again" *{Quarterly Journal of Economies.* August, 1958).

The Leibenstein-Galenson position stated as briefly as possible is the following. Given the rate of investment the growth of national income will be greatest if investment is allocated to the uses in which it is most productive. Hut it is possible that the *rate of investment* can be increased if investment is allocated to uses which art[1] not the most productive. That possibilty occurs if the enterprises with the. lower productivity of capital tend to save ("reinvest") a larger proportion of their incremental oulput than do the enterprises with the higher productivity of capital and if the higher rate of reinvestment outweighs the effect of the lower productivity of capital, and if fiscal and other measures are too weak to raise, the rate of saving, then a case can be made for allocating investment to uses which are not the most productive ones available.

The Leibenstein -Galenson article holds that the rate of reinvestment will be greater in the more capital-intensive enterprises than in the. less capital-intensive enterprises. It concludes that even if the productivity of capital is lower when more capital-intensive techniques are used, the greater rale of reinvestment may compensate sufficiently so that the most rapid growth of income can be achieved by allocating investment to more capital-intensive projects.

The belief in the higher rate of reinvestment in capital-intensive enterprises arises from the following sort of reasoning: the more capital and the less labour that is used in production, the greater will be the share of output going to capital and the less the share going to labour. Since saving occurs mainly out of the return to capital and only to a small extent out of wages, the proportion of the incremental output saved will be. higher the greater the capital-intensity of the production technique.

The fallacy of this reasoning is easy to see. *The return to capital is maximized by allocating to its most productivenes.* If the amount of reinvestment depends on the return to capital investment can be maximized by allocating investment to its most productive uses. There is no conflict between the "productivity" criterion and the "reinvestment" criterion. The optimal degree of capital-intensity can be said to depend solely on productivity considerations.

The only possibility for establishing rate of reinvestment as an independent criterion in choosing the degree of capital-intensity is to show that enterpreneurs tend to save a higher proportion of their return the greater the capilalinlensity of their production methods. Some *a priori* reasons might be offered for expecting such a pattern in the paving propensities but I know of no statistical evidence to show that such is the case.

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March 10

Government Accounting

IN the last para of the second editorial "Time for Change"' in your issue of March 11, it is stated that public appreciation of questions in the field of development financing would be greatly enhanced if Ihe form of the budget were adopted in such a way as to mirror clearly emerging changes in the economic functions of the State, but yon have pointed out that this "depends on our revolutionising the accounting procedures in Government", ft is not clear how you come to the conclusion that amplification and revision of the budget can be done only after the accounting procedures in the Government are completely changed, or in other words, that, unless the Government accounting procedures are changed, radically, it would not be possible to furnish the required details in the budget. I think it is common knowledge that the expenditure and receipts of the Government are classified and recorded in great detail in the Government system of classification of receipts and expenditure. Indeed, it would appear that the classification of receipts and expenditure in the Indian Government accounting scheme is in much greater detail than in other countries including Great Britain and America. Whatever details are required for amplification of the budget in the manner suggested can, therefore, be easily provided by the *existing* accounting procedures of our Government, without any radical lor even minor) change thereof.

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[The point is not whether every rupee received or spent by the Government is recorded, nor whether this is done in great detail. The complaint is about obfuscation in the *manner* of recording, which makes it virtually impossible for the non-expert to appreciate, for instance, the extent of the Government's production and trading activities. In many of these, the gross magnitudes are often more important from the viewpoint of planning than the net figures recorded in the budget statement. But one eannot get at such information without a careful re-classification of the "Demands for Grants''. And again, how does one figure out "budgetary receipts corresponding to extenternal assistance" from the statements? There is, of course, a way of doing this — provided one has spent a lifetime in the company of the hoary "heads of account" of the Indian Budget. —Ed |