

**CAPABILITIES AND THE PROCESS OF  
DEVELOPMENT**

G. Omkarnath

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**G. Omkarnath**

Centre for Development Studies

Thiruvananthapuram

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## ABSTRACT

Sen's concept of capabilities is rooted in welfare theory. For the development economist it has immediate, if somewhat tenuous, appeal on two counts. First, the concept provides an ethical basis for evaluating development from the standpoint of people and their larger lives. Second, on the more strategic plane, it alerts us to the possibility of an ends-and-means confusion in the pursuit of economic development. The ultimate appeal of the concept, however, would depend on whether it is followed by a framework for studying development as a *process*-- the process of expanding capabilities of people. The paper is concerned with this issue as being crucial to development theory, as against welfare economics, ethics or choice theory.

**JEL Classification :** O10, O17, B12

**Key words:** capabilities, commodity fetishism, continuous change, labour process.

## 1. Introduction

The post-war version of development economics may have declined and fallen into disrepute. But the 'sub-discipline' itself is far from dead. It, in fact, thrives in continually ramifying forms. Underlying the desultory growth of the literature, which often imbibes new approaches and methods, is a state of confusion as to the basic questions of development addressed-- a confusion that is no doubt aggravated by the rapid changes, political and economic, on a world scale. One overarching approach that seems to stand apart relates to the 'capabilities approach' proposed by Amartya Sen.

Sen<sup>1</sup> has criticized the conventional view of economic development as expansion of commodity supplies or GNP growth and argued the case for its characterization as expansion of human capabilities, namely the measure of freedom people enjoy in choosing the kinds of lives they lead -- and lives that may be deemed worthy in an objective sense. The argument, since exploited in his studies on the standard of living and inequality,<sup>2</sup> marks a culmination, as it were, of Sen's long-standing critique of the utilitarian bases of neoclassical welfare economics and his efforts at their reformulation. But strikingly, the argument with a history of over a dozen years now leaves the predictive content of development theory as such completely undisturbed. In

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<sup>1</sup> Sen (1984, 1988 & 1990)

<sup>2</sup> Sen (1985b, 1992)

particular, a theory of development, the latter defined the Sen way as the process of expanding human capabilities, is yet to come. Such a theory of the *process* of development is, of course, different from a theory of the characterization, ethical evaluation and measurement of the *outcomes* of development.

The cleavage between the *process* and the *outcomes* of development is achieved by Sen's approval of the usefulness of conventional development economics in analyzing economic growth, but not in characterizing economic development. Even so, the supposed academic division of labour is unhelpful if, as a rule, GNP growth and vital indicators of social development point in disparate directions for much of the developing world. An integrated view of commodities as well as capabilities is then in order. As Sen's 'capabilities approach' gets increasingly occupied with ethical and measurement oriented discussions, the more dynamic issues of 'the generation and security of entitlements and their conversion into capabilities'<sup>3</sup> are pushed to the background. In particular, Sen's approach would be partial without an explanation of the formation of capabilities.

The purpose of this paper is twofold. First, it seeks to argue that development analysis, to be meaningful, must address commodities and capabilities conjointly and not in a dichotomous fashion. Secondly, it explores the elements of an approach for understanding the formation of capabilities in a developing economy. The paper is divided into five sections. In section 2 certain tendencies observable in the general field of development economics are highlighted. In section 3 we review Sen's 'capabilities approach' briefly and argue its need to reckon with positive theoretic issues. Section 4 outlines an approach that draws upon the

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Sen (1984)p.529)

methods of classical political economy, notably of Marx, to characterize the workings of a developing agrarian economy as a set of heterogeneous labour processes. The labour processes, which have a tendency to reproduce themselves, are seen to define the choices available to people and the space available for 'public action'. Section 5 concludes the paper.

## **2. Development Economics : Three Tendencies**

Development economics is at least as old as Adam Smith's *Wealth of Nations*. In fact, if it is defined as a study of accumulation, structural change and societal transformation, development economics is hardly distinguishable from the political economy of Smith, Ricardo and Marx. As the neoclassical demand-and-supply theory rose to dominance in the latter half of the nineteenth century, the focus of analysis shifted from issues of accumulation to those of allocation of given (scarce) resources.<sup>1</sup> It was not until the thirties when the Great Depression and the Keynesian Revolution challenged the orthodox world view of a self-regulating market economy that questions of accumulation and 'quantity dynamics' came again to the fore. Development economics, carved out as a 'sub-discipline' to focus on the economic problems of newly independent colonies, originated during and after the World War II. The conjuncture was marked by theoretical and political developments. Keynesian theory and Harrod-Domar growth models which held sway in the capitalist world influenced thinking about planning and the role of the state in industrializing backward economies. On the other hand, problems of post-war reconstruction and industrialization in Eastern Europe and erstwhile colonies aroused much interest in the developed world, not least because of the impending cold war.

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<sup>1</sup> Bharadwaj (1978) provides a lucid account of the shift in paradigms.

Recent appraisals of the state of development economics, however, vary sharply from one of its decline and inevitable fall<sup>5</sup> to that of it being alive and well.<sup>6</sup> Underlying the seemingly contradictory opinions, coming as they do from two of the pioneers (Hirschman and Lewis), are three closely related tendencies in the general field of development economics: (i) The decline and fall of the post-war development economics, (ii) its 'neoclassical synthesis', and (iii) the rising importance of normative and empirical approaches.

The first tendency relates to the decline and fall, not of the 'sub-discipline' as such, but of its post-war version. Hirschman's reference was primarily to the influence of the post-war literature, while Lewis was implicitly referring to the current, neoclassical version of development economics that came into prominence during and after the 70's. Hirschman's account of the rise of post-war development economics is impeccable. His analysis of the causes of its decline is equally impressive. On the latter, he refers to a number of important conjunctural factors such as the differing histories and initial conditions of the poor countries, the political strife within these countries not unmingled with the politics of cold war, and to what he called the 'unholy alliance' between the neo-liberal and neo-Marxist paradigms, both discouraging, from different standpoints, an active state pursuing independent national development strategies. Hirschman is, however, less emphatic on the role of developments on the theoretical plane, to wit, the decline of the Keynesian theory in the capitalist world and more importantly, the rather poor reputation of post-war development economics as a cogent and well-integrated body of theory.

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<sup>5</sup> See Hirschman (1982)

<sup>6</sup> Lewis (1984)

Given the initial influence of Keynes on development economies, it is not surprising that the decline of the former should affect the fortunes of the latter. In fact, the 'neoclassical synthesis' of Keynesian theory was closely followed by a similar synthesis of post-war development economies. This was in a sense inevitable because the many valuable insights and metaphors thrown up by the post-war literature e.g. 'externalities', 'linkages', 'unbalanced growth' and so on were never properly integrated into the general corpus of economic theory. Also, the considerable empirical literature on economic growth and structural change of nations, inspired by Simon Kuznets and Chenery, has had little counterpart in theory, save in the static Walrasian General Equilibrium.<sup>7</sup> In effect, development economics came to be overly occupied with what may be called 'engineering' issues.

This leads us to consider the second tendency of post-war development economics, namely its own 'neoclassical synthesis'. This partly derives, as noted, from the neoclassical synthesis of Keynesian theory itself which in a sense could not cope with the problems stagnation and inflation that have stalked the capitalist world since the early 70's. Although its intellectual roots lay in the IS-IM analysis of Hicks in the thirties, the neoclassical synthesis of Keynesian theory reached a high point after the 70's with the rise of monetarism and supply-side economics and an academic search for the 'microfoundations' of macroeconomics. Almost simultaneously, the neoclassical synthesis of post-war development economics was forging fast. In part, this came about with the rising debt crisis of Latin American countries followed by the prescription of neo-liberal policies to these countries by multilateral aid agencies. More recently, the success stories of a few East Asian economies and the collapse of Socialist Europe have helped the resurgence of neoclassical theory.

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<sup>7</sup> On this see Pasinetti (1993)



The point to note is that the neoclassical synthesis of development economics has meant a substantial revision of its original agenda. The post-war concerns of macroeconomic dynamics of developing countries, their structural and institutional constraints and the strategies of industrialization are replaced by a Walrasian vision of static resource allocation in the setting of competitive markets. The problematic of development is now changed to one of 'getting prices right' and 'efficiency of resource use'. Implicit in this is also a loss of the *differentia specifica* in theoretical terms of developing economies which was the original inspiration for the launching of the 'sub-discipline'. The replacement of macrodynamic analysis by the theory of markets and the loss of specificities of late industrialization mean a substantial truncation of the domain of development discourse envisaged in the post-war literature. Yet, remarkably, the current two-way traffic of ideas and models between developed and developing country contexts, using much the same tools, is being interpreted as a sign of the essential continuance, indeed growing vigour, of a single, undifferentiated 'development economics'.<sup>8</sup>

The third and final tendency we note relates to the rising importance of normative and empirical approaches to specific dimensions of underdevelopment in a somewhat splendid isolation. Literature, both conceptual and empirical, has grown since the early 70's on issues such as poverty, income distribution, minimum needs, famine, health and so forth. Much of this literature has, of course, grown out of genuine policy concerns about the failure of 'trickle-down' effects of economic growth in poor countries and the need for more direct attacks on poverty and squalor. The conceptual richness of discussions of, say, Streeten on

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<sup>8</sup> See, for example, Bell (1987).

'minimum needs' and Sen on 'capabilities' and the usefulness of the empirical research these have inspired, are beyond doubt. Yet, there is a tendency to view them as issues 'in themselves'. Severed from the general corpus of economic theory and therefore from the context of systemic forces operating on underdevelopment, these discussions point to a definite *ad hocism* in strictly economic-theoretic terms. As Hirschman puts it: '... the heretofore unique maximand of development economics (income per capita) dissolve (d) into a variety of partial objectives, each requiring consultation with different experts....'<sup>1</sup>

The implications of this tendency could be serious. Thus, a sophisticated concept of poverty and an elegant measure of it may be important objects of scientific analysis. However, these by themselves offer no structural explanation of how poverty gets generated and reproduced. Without such an explanation, the space available for strategic interventions is not obvious. The rising importance of normative and empirical approaches imply an additional constraint on the domain of development discourse, over and above those imposed by the neoclassical synthesis. It implies a complete severance of development economics from the general corpus of economic theory-- neoclassical or non-neoclassical . Development economics as it is today might appear to be a mixed bag of issues, methods, approaches and techniques, giving the impression of its essential continuity and vibrancy. The kind of unscrambling attempted above would, however, reveal a different pattern emerging : its shrinking domain of discourse and a growing *ad hocism*.

### 3. Sen's 'Capabilities Approach'

Sen's new approach to development may be viewed against the backdrop of aforesaid tendencies in the general field of development

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<sup>1</sup> Hirschman, *op.cit.*,p.387.

economics, in particular the rising importance of normative approaches. Sen<sup>10</sup> suggests that traditional development economics has been useful in analysing factors in economic growth but has been less successful in characterising economic development. The process of economic development according to him is best seen as the process of expanding the capabilities of people. This characterisation is meant to serve equally as a critique of the commodity-centric view of development dominant in the literature, which is a view of 'expanding the supplies of commodities.'

Given the welfare-theoretic roots of Sen's approach, the concept of capabilities is delineated in several steps. Neoclassical theory holds that the value of a commodity, say, 'food' to the consumer (holder) varies directly with the degree of pleasure or happiness it bestows on her.<sup>11</sup> Keeping in with his long-standing critique of neoclassical welfare economics, Sen finds this utilitarian view of welfare and standard of living banal and misleading. Aside from the well-known problems of measurement involved, he points to the important paradox of the poor reconciling themselves to their fate such that, for example, their utility levels may be unchanged even while food consumption falls. As a step towards viewing people in relation to commodities, Sen has revived the concept of *entitlement*. A person's entitlement is the set of alternative commodity bundles which she can command or choose from, given her initial endowments, trading and production possibilities, and other institutionally guaranteed rights. Notably, this concept of entitlement allows for economic arrangements outside the institution of market.

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<sup>10</sup> Sen (1988, 1990)

<sup>11</sup> The point is unaltered if commodities are replaced by their 'characteristics' as the argument.

While the concept of entitlement helps in focusing on people's *command* over commodities, it still is concerned a great deal with commodities. What one wants to get at, following Sen's trail, is what people eventually 'can or cannot do or be' with their entitlements. What are the individual and social circumstances under which people realize their entitlements and to what effect? Sen meets these questions with the concepts of *functionings* and *capabilities*. Functionings are people's 'doings and beings' and imply that people value being able to perform certain tasks or attain certain states of being. The functionings arising from the consumption of food may thus include one's ability to do manual labour with ease or one's freedom from hunger. A person's life could then be summed up as a bundle or vector of functionings. The set of alternative bundles of functionings that a person can choose from-- her feasible choices-- is defined as that person's *capability*. The capability set thus connotes one's freedom to choose the kind of life one wants to lead, over and above the 'positive freedoms' implicit in the vectors of functionings.<sup>12</sup>

The concept of capability, as Sen reminds us, is traceable to the political economy of Adam Smith and Marx.<sup>13</sup> Also, it must be said in fairness to the post-war development economists that they never so much as sought economic growth for its own sake, but only as a means to the larger end of improved quality of life. To discount the originality of Sen's contribution on this basis, however, would be erroneous for two reasons. For one thing, it is unsurprising that economists often must work within the coordinates set by the progenitors and old ideas may

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<sup>12</sup> In delineating the concept of capabilities Sen is inspired, among others, by the Kantian proposition that people ought to be judged for their intrinsic value and not merely for their instrumental value. Thus people are not only a means to economic development, as the 'human capital' theorists are wont to emphasize, but also its true and ultimate goal.

<sup>13</sup> This vision echoes well in Lewis (1955) pp 420-1). Also, see Seers (1979).

acquire new meanings through history. For another, it may be important to make explicit what may have been only implicit in the post-war literature. In fact, as Sen and others have shown with reference to actual trends in GNP growth and social development for several developing countries, the danger of an ends-and-means confusion in the course of economic development is real enough.

Yet an important question needs clarifying: 'capability approach' to what? Broadly speaking, it seems to be an approach, once, to four distinct themes. Development theory is but one of these themes. First and foremost, it is an approach to the critique of the foundations of neoclassical welfare economics and to their reformulation by bringing in ethical considerations.<sup>14</sup> Secondly, it is an approach to ethical discourse, in its own right, on the meaning of development, freedom, on what constitutes good life and so on.<sup>15</sup> Thirdly, it is an approach to the measurement of development based on the concept of capabilities, often involving choice-theoretic axioms.<sup>16</sup> Finally, as an approach to development economics *per se*, it is concerned mainly with the *concept* and characterization of development *viz.* development as expansion of capabilities. This has immediate appeal for the development economist on two counts. First, it provides an ethical basis for evaluating development from the standpoint of people and their larger lives. Second, on the more strategic plane, it alerts us to the possibility of a grievous confusion between ends and means in the course of economic development. By themselves, these links to development economics

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<sup>14</sup> See Sen (1987).

<sup>15</sup> Philosophers have since joined this discourse.

<sup>16</sup> The attempt to construct a capability index is an example. See Sen (1985) on measurement. Sen's influence on the Human Development Index computed by the UN is well-known.

are rather tenuous. The true and ultimate appeal of Sen's approach to development economics would depend on whether it can reorient the predictive content of development theory, given his definition of development. In other words, is there a way of studying development as a *process* -- the process of expanding capabilities of people? If development is defined the Sen way as a process of expansion of capabilities, then there must be a framework which allows us to see it occurring in terms of that process. In operational terms, this would mean explaining the formation of capabilities.<sup>17</sup>

To stop at the characterization of development, and not progressing in the direction of an alternative theory of development, has other implications. First, a dichotomy is introduced between post-war development economics (which Sen approves of as being valid as far as the analysis of growth is concerned) and the current preoccupation with the characterization, ethical evaluation and measurement of the *outcomes* of development. As noted above (section 2), it is doubtful if post-war development economics succeeded in laying out a well-integrated theory of development. Any realistic analysis of development moreover must involve *both* commodities and capabilities. The fact that conventional growth indicators and capability indicators tend to move in opposite directions is enough of a case for integrating commodities and capabilities into a single framework. Secondly, stretching this dichotomy would seem to promote *ad hocism* by shifting focus from one capability failure to another (e.g. famine, hunger and malnutrition) although in actual fact such capability failures at the community level may be only different manifestations of the self-same underdevelopment and its reproduction.

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<sup>17</sup> The problem is recognised but not pursued: "There is a need to pay specific attention to the generation and security of entitlements and their conversion into capabilities." (Sen 1984/p.529)

This *ad hoc* ism may reduce the capabilities approach to a kind of 'malady approach' to development. Finally, in the absence of a predictive framework, discussions of 'public action' are bound to get removed from the institutional specificities of developing countries and the actual processes at work.

#### **4. The Formation of Capabilities**

##### **4.1 The Problem of Categories**

A poor, populous and primarily agrarian economy such as India's is not, for these reasons, a simple system to study and theorize upon. The complexity arises from the fact that multiple modes of subsistence and production coexist which at the same time are entwined through the process of commercialization. This raises important issues of interpreting 'change' in the economy. It moreover renders even the definition of standard macroeconomic aggregates difficult. For macroeconomic aggregates can be meaningfully defined only with reference to the underlying social relations of production. Thus aggregate output cannot be reckoned, except in a crude accounting sense, without regard to whether it originates from the subsistence farmer, the share tenant, an agriculturist who produces for the market or an own-account craftsman. Similarly, employment across the economy cannot be aggregated into any meaningful scalar magnitude when it is obvious that it must reckon with variegated forms of social labour in actual existence such as self employment, attached labour, intermittent female labour, casual labour and child labour, although much of conventional employment accounting is based on the implicit premise of universal and commodified 'wage labour'. The same conceptual problem goes for the division of aggregate income into consumption and investment. What appears to the national income accountant as minor problems of conversion and imputation appears to the economic theorist as a basic problem of defining categories.

Herein lies the specificity and relative ease of studying the capitalist system. Once the emergence of wage labour as a historically specific category is assumed (that is, when labour power itself has become a commodity), labour can be seen to be a well-defined category. One could then think in terms of labour 'in general' -- labour that is essentially homogeneous and aggregable. Thus, Marx could reduce the 'socially necessary labour' into standardized units of 'simple' and 'abstract' labour. As the capital-labour relation gets established, definition of other macroeconomic aggregates such as output, income, investment and employment does not pose any theoretical problems. This is so since the predominant form of labour under capitalism is wage labour and other economic categories in the system spring, as it were, from the category of wage labour. Such a condition, of course, does not obtain in much of the contemporary developing world.

Each socio-economic formation gives rise to concepts and measures of macroeconomic aggregates specific to that formation. At the core of a socio-economic formation is what Marx called the *labour process*. Marx defined the concept of labour process in terms of a general depiction of production i.e. man-nature interactions mediated through the extant system of social relations. The concept is thus general enough to be applied to socio-economic formations ranging from feudalism and peasant economy to capitalism and socialism, although in the literature it tends to be identified with capitalist labour process. In fact, some scholars<sup>18</sup> have dealt extensively with the problem of defining economic aggregates relevant for non-capitalist economic systems in specific historical contexts. What complicates the study of a developing economy such as India's is that there is no labour process that can be uniquely identified with such an economy.

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<sup>18</sup> For example Kula (1976) and Chayanov (1987)



Further complications arise as these multiple and overlapping structures do not exist in isolation but are dynamically entwined through the process of commercialisation. For example, if 'peasants' have to regularly hire in and hire out labour and depend on markets for inputs and outputs; and if 'tribals' are pauperized and have to fend for themselves in the plains, we cannot define a peasant mode of production or a tribal mode of production, although some characteristics of peasants and tribals may be present in the respective cases. Similarly, agrarian capitalism cannot be defined solely on the basis of the fact that large farmers operate land for profit on the basis of hired labour. For one must turn around to see the characteristics and conditions of labour in their totality. In the circumstance that hired labourers under question, when not so hired, have to combine not just different activities (e.g. non-farm work, petty trade and so on) but different forms of labour as well (e.g. hired labour, self-employment, tenancy, seasonal migration and so on) to earn their annual subsistence, 'wage labour' as a historically specific category cannot be taken to be the reality. Furthermore, prevalent forms of accumulation out of agrarian surpluses may be such that it is difficult to conceive of a mode of production in agriculture taken as a sector *in itself*.<sup>19</sup> The structure of economic differentiation runs along all dimensions: property, production, exchange and accumulation. It is not possible to draw sectoral distinctions or allocate people into social classes along any single dimension, taking the others for granted. The problem of categories would not be so acute if the structure of differentiation were regarded as a temporary, passing phenomenon. In fact, however, differentiation has not only endured for long, given the conditions of accumulation but is increasingly convoluted as commercialisation proceeds.<sup>20</sup>

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<sup>19</sup> Patnaik (1989) surveys the debate on 'mode of production' in Indian agriculture.

<sup>20</sup> Bharadwaj (1985) discusses the dynamic consequences of commercialisation for the formation of agrarian markets.

A recognition of the problem of categories is implicit in the classic model of economic development by Lewis which draws a clear distinction between a capitalist sector and a non-capitalist sector.<sup>21</sup> But the problem is evanescent as the model postulates the steady subsumption of the non-capitalist sector to establish a single, unified wage-labour market under the spell of some magnificent dynamics of capitalist development. For the same reason, the heterogeneity of labour within the subsistence sector is of little consequence: all that matters is the perfectly elastic supply of 'surplus labour' at a given wage for productive accumulation in the capitalist sector. It is clear in retrospect that the historical conditions required for the transformation of 'surplus labour' into industrial proletariat are indeed rather stringent and that the Lewisian process better reflects the history of the present-day industrial economies.<sup>22</sup>

On the other hand, the intrinsic value of sectoral distinction between capitalist and non-capitalist sectors, even if it appears as an initial condition in the Lewis' model, seems to be lost entirely in the structuralist literature. In the literature, the usual distinction is between agriculture and industry. If this distinction equates all agriculture with the traditional, non-capitalist sector and all industry with the modern capitalist sector, it is empirically false. Moreover, it contradicts much of structuralist analysis which requires that terms of trade be established *ab initio* between the two sectors. For this to happen, agricultural output must be mobilisable through the market process. If, as is more likely, the structuralist distinction points merely to the differing supply conditions and pricing rules in the two sectors, both taken as essentially capitalist in organisation, it has the curious effect of excluding a large

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<sup>21</sup> Lewis (1954).

<sup>22</sup> See Lewis (1951, 1979). Bladun (1989) states the difficulties in understanding contemporary development in the dual economy framework.

fraction of aggregate activity (and population) from the purview of modelling. For in most developing economies, the 'unorganised' sector accounts for a significant proportion of national income and employment.

Another feature of structuralist macroeconomics, which it derives from Keynesian theory, relates to the type of aggregates used. Tsuru distinguishes between the *net* income aggregates of Keynes and the *gross* income aggregates of Marx. Keynesian aggregates abstract from the structure of production and changes therein.<sup>23</sup> This method is typically useful for analysing problems of the short run. Marx's method of gross income aggregates, on the other hand, are useful in long-run development analysis, in unravelling the 'laws of motion' of capitalism. This distinction in part explains why structuralist macro models, quite useful in highlighting the macroeconomic constraints and in predicting the impact of macroeconomic shocks in the short run, are far less successful in dealing with transformational growth and development. In particular, *people* in these models are presumed only to passively absorb, period after period, the impact of macroeconomic perturbations; the consequent adjustments in their opportunities and corrections to their behaviour have no apparent feed-back effects on the macro system. Though the models highlight important structural specificities of developing economies, often through an extended social accounting framework, the overall commodity-centric character is preserved. A consequence of this, as noted, is the virtual exclusion of the vast 'unorganised' sector from the scope of these models.

Structuralist models are usually based on what Kaldor (1961) called 'stylized facts'. These are 'empirical generalisations of 'broad tendencies, ignoring individual detail' which are in turn used in

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<sup>23</sup> Tsuru (1994).

constructing hypotheses about how a real-world economy functions. This, of course, is a legitimate procedure of scientific investigation. However, any stylization must assume something about the nature of the underlying economic system. Only when basic categories such as output, employment and investment are adequately and unambiguously defined can hypotheses based on stylized facts have any meaning. The definition of categories has an analytical priority, in this sense, over picking and choosing stylized facts. Ignoring this might mean negating some of the richness and complexity of economic life in a developing economy.

If, as discussed, it is not possible to define unambiguously the standard macroeconomic aggregates; if it is not possible to sectorise the economy into 'peasant and capitalist', 'agriculture and industry', 'rural and urban' or 'organised and unorganised'; if it is not possible to consolidate the economy into Keynesian aggregate markets; and if it is not possible to classify the population into income/occupational classes without considering the income generation processes in their entirety, we would require a basic category and unit with which to disaggregate the economy in an analytically meaningful and empirically plausible fashion.

#### **4.2 Continuous Change**

The problem of categories discussed above gives rise to two related questions. First, the question of what constitutes 'change' in such an economy and whether it is measurable in terms of conventional, commodity-centric categories of prices and quantities needs to be clarified. Second, if conventional categories and measures do not capture anything but superficial change, what is the appropriate alternative? We consider the first question presently.

When conventional measures are applied, a large agrarian economy would appear to be either a monolith of changelessness or a bundle of mutually conflicting trends rendering any judgment about the overall pace and direction of 'change' in the economy extremely difficult. Consider the following trends of the Indian economy. By its own historical standards, India has averaged a respectable growth performance, especially since the early 80's.<sup>34</sup> The share of agricultural GDP has declined steadily to the present around one-third (see Appendix). Yet even today agriculture is a key determinant of major macroeconomic variables such as aggregate demand, real wages, industrial costs and prices, not to speak of income distribution and the poverty ratio. The marked decline in the share of agricultural GDP moreover has not meant a corresponding growth in the share of manufacturing, although the latter now covers a wide spectrum of commodities, including the more sophisticated consumer and producer goods. It is the amorphous 'services' sector which has steadily, if somewhat precociously, gained in GDP share. In striking contrast to these changes in commodity composition, the sectoral transformation of labour is limited, with agriculture still harbouring around two-thirds of the total labour force. India's share in world trade and financial flows is minuscule, but its vulnerability to external shocks is not thereby reduced. Pooled together, these long-term trends do not seem to convey any consistent story of the nature and direction of change in the economy, conceived in conventional, commodity-centric terms. It is evidently not a story of a static economy. There is at the same time no simple or obvious way of clinching the nature of underlying change in the system.

Adding to the complexity of the system is the structural peculiarity of the organised -unorganised dichotomy. It will be seen from part B of

<sup>34</sup> Viewed in per capita terms or against the growth profile of other 'emerging' economies, the performance is not particularly impressive.

the Appendix table that the 'unorganised' sector in the Indian economy accounts for 63 per cent of income and engages over 90 per cent of economically active population. Significantly, about 80 per cent of 'operating surplus and mixed income' i.e., that part of income which cannot be resolved into conventional, 'functional' distribution of income into wages, profits and rents also originates in this sector. Not much analytical significance can be attached to the category called 'unorganised' sector, except, of course, trivially that it is 'not organised'. Even if the organised sector could be assumed to more or less correspond to the capitalist relations of production, the unorganised sector consists of a whole range of variegated activities, types of enterprises and social forms of labour, so that people engaged in that sector cannot all be treated as comprising a homogenous category or in principle reducible to one. There is evidence moreover of a complex relationship between the organised and unorganised industrial sectors. For example, large firms in the organised industry delegate part production to the small units in the unregistered sector through sub-contracting while a large pool of casual labour circulates between the two sectors regularly.<sup>25</sup> On the other hand, the two sectors seem to respond quite asymmetrically to fiscal and monetary policy.<sup>26</sup>

If the nature and direction of change are opaque in the space of commodities, further complications may be anticipated as we shift focus to people and their capabilities. For the movements in one space, already complicated, may bear no systematic relationship with movements in the other. A coherent and comprehensive data-base on the life and work

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<sup>25</sup> Banerjee (1988) is a critique of policy perceptions about the unorganised industry in India.

<sup>26</sup> For an econometric exploration, see Patel and Srivastava (1996).

conditions of people in India is hard to come by.<sup>27</sup> To be sure, survey data on a range of socioeconomic characteristics of households, especially those in the vast rural sector, are available on a more or less regular basis. However, these are of limited value in locating and understanding the processes at work due to two types of problems. First, on the more technical side, the various data sets (e.g. on landholdings, consumption, employment, indebtedness, household enterprises and so on ) arise from independent random samples and cannot be easily and meaningfully matched at the level of the household. Second, more substantive problems of interpretation arise due to the almost mechanical use of commodity-centric concepts and measures in the censuses and surveys. For example, labour force surveys in India throw up incredibly low rates of measured unemployment, with the analytical and policy value of these estimates not being very obvious. Also, the insistence on seeking scalar estimates often means suppression of valuable multi-dimensional information actually collected. Thus consumption expenditure among rural labour households is estimated by pooling expenditure by source of financing such as drawing upon of homegrown stocks, consumption on debt account and market purchases. This classification is lost when all data are reduced to a single scalar value through aggregation involving actual or imputed market prices.

These limitations notwithstanding, certain systemic changes affecting the life and work conditions of people can still be read from the available data. There is for example the evidence of a steady and significant shift of rural workforce, in proportionate terms, from agricultural to non-agricultural activities in recent decades.<sup>28</sup> However, this has been accompanied by rising real wages in agriculture. At the same time, casualisation of labour and 'open' unemployment in rural

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<sup>27</sup> For a review, see Omkarnath (1989).

<sup>28</sup> Visaria and Basant (1994)

India have been on the rise, as also labour circulation within rural areas and between rural and urban areas. While aggregative data point to declining or negative employment elasticities in the commercial segment of Indian agriculture and a stagnation in organised sector employment, micro level studies do not support the hypothesis of general immiserisation of the poor. New linkages between the organised and unorganised industries are being forged as large-scale manufacturing units resort extensively to contract labour and farm out certain lines of production to the smaller units. Also substantial financial allocations by the state on a range of poverty alleviation programmes appear to have set off a certain crude income multiplier among the poor households.<sup>29</sup> Rural India is also witnessing the growth of a new class of 'capitalist' farmers who combine commercial agriculture with an array of commercial and industrial interests both within and outside the rural economy.<sup>30</sup>

While each of the trends just noted is dramatic and powerful enough, they again do not seem to add up to a consistent account of their net implication for people's lives, opportunities, constraints and choices. Nor does one get a clue as to the transmission mechanisms of commercialisation, accumulation and the role of the state in shaping people's 'endowments' themselves. The nature and direction of change in the system are opaque even as one moves away from aggregative, commodity-centric trends to the more disaggregated and qualitative information based on surveys. What is, however, evident from the latter source is the fact of 'stirrings' of all-round change in the economy and society. From the foregoing, one may draw the following generalisations:

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<sup>29</sup> For an empirical exercise showing how the poverty ratio may be more sensitive to government expenditure, rather than total activity in the economy, see Sen (1996).

<sup>30</sup> Omkarnath (1993)



- (a) The overall force and pattern of accumulation in the economy has been such that the vast majority of population stands virtually excluded from the nucleus of accumulation i.e., that part of accumulation which drives the system as a whole;
- (b) Yet the emerging relation between the 'organised' and 'unorganised' sectors is not characterized by simple dualism but by asymmetry and dichotomy;
- (c) This implies continuous differentiation in income generation processes and livelihood patterns throughout the system;and
- (d) The specific dynamics of accumulation and commercialisation may then confound the distinctions conventionally drawn between sectors of the economy and social classes.

These tendencies together constitute what may be called continuous change. It refers to those qualitative changes in the basic relationships in the economy and in the living and working conditions of people which, while being quite powerful and dramatic in themselves, cannot be read as such from trends based on commodity-centric categories. Continuous change is also a two-way process. While the systemic forces operating on the system, such as accumulation, commercialisation and the role of the state affect the lives of people in complex ways, the resulting changes in the opportunities, choices and behaviour of people also condition and shape the overall path and pattern of accumulation. Such bottom-up changes may gather momentum only over time and erupt suddenly as macro phenomenon in quite unpredictable ways.<sup>51</sup>

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<sup>51</sup> For example, in the 70's when Indian economists were studying strategies for greater 'labour absorption' within agriculture because industry could not be depended on for employment generation, (see Bardhan et. al, 1978), they could not predict the fact of a significant diversification in employment already under way.

Continuous change forces us to redefine the basic categories of analysis, especially when the object is to study development as a process of expanding capabilities of people. Having analysed the nature of 'change' and 'structure' in a developing economy and the problem of categories it entails, we proceed to outline a framework for studying the formation of capabilities.

### 4.3 The Basic Approach

The problem at hand is to delineate a framework that permits us to see the process of economic development directly in relation to people, the opportunities available to them and changes therein. This, of course, means going beyond commodities to evaluate the content of development. But equally, it means going beneath commodities to grasp the underlying social relations of production. Marx's concept of 'commodity fetishism' must be understood in this totality. This method of Marx permits us to see the relation between commodities (more generally, goods) and capabilities in an integrated fashion instead of forcing a split in the domain of discourse. In fact, it is useful to start out with 'labour', a category that raises a number of problems in the context of a developing agrarian economy. Before turning to this, it is necessary to consider the theoretical underpinnings of our framework.

Theoretically, the problem of development has been approached in two distinct ways. The one is the mainstream, neoclassical way. The other is the classical and Marxian way.<sup>32</sup> The conventional, neoclassical economic theory has much to say on how markets function and how they allocate resources across different branches of the economy. Under certain well-defined conditions, such allocations may be regarded as 'optimal'. But this theory has typically little to say on how markets

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<sup>32</sup> Bharadwaj (1991) provides a lucid account of the structures of the two paradigms.

develop. Oriented towards an explanation of optimal allocation of given (scarce) resources, it misses the fundamental problematic of economic development – as resource creation and expansion. Secondly, as a close-ended system of a simultaneous determination of all prices (including factor prices) and all quantities, the theory has little room for analysis of history or of systemic forces operating on the economy through ‘quantity dynamics’. Finally, in the context of our present analysis, it is important to note that in the neoclassical theory – people appear as strictly hedonistically behaving rational economic agents for whom all economic processes are mediated exclusively through the medium of the market.

Against this allocational paradigm of neoclassical theory stands the accumulation view and the ‘surplus approach’ of the classical political economy of Smith, Ricardo and Marx.<sup>33</sup> This theory which views the economy as a circular process (rather than the ‘one-way avenue’ of the neoclassical theory) assigns a subsidiary role to prices (which are seen more as conditions ensuring the reproduction of the system than as resource allocators). The structure of explanation of prices is here fundamentally different, with the size and composition of demand, technology and rules of income distribution taken as data. This permits a separate analysis of ‘quantities’, outside the ‘core’ of price formation. The separation of the domain of prices from that of quantities lends the theory a certain openness for admitting analysis of history. This implies that economic theory can in principle cope with the study of different socio-economic formations, and not just capitalism hovering around full employment. It is this approach that will broadly inform the framework that we outline in the following.

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<sup>33</sup> An elucidation of the classical ‘surplus approach’ is found in Garegnani (1987).

#### 4.4 The Economy as a Set of Labour Processes

We can visualise the economy as comprising  $n$  *households* which are production - consumption units. Each household is defined uniquely by its *labour process*. A labour process is a complete description or list of the production and consumption activities of its members and the social conditions under which these activities are carried out. For example, if the production activity is farming, the household labour process will, of course, include this fact. In addition, it will specify the detailed conditions of ownership and operation. Similar details for other production activities of other members of the household would make up the household labour process on production account.

Consumption activities include not only subsistence and life-style of the household members but direct material inputs necessary for maintaining production activities at current levels. The latter include provision for capital consumption and taxes. Also specified would be the modes of financing consumption. Labour processes are thus complete descriptions of the totality of the material conditions of life of households. They specify the infinite variety of circumstances in which people live and work, and relate themselves to resources, to markets and non-market modes of exchange, and to the totality of their environment. Clearly, labour processes form a continuum that spans the entire economy without admitting of simple dichotomies of agriculture-industry, rural-urban or formal-informal. Within and across households, they capture all types of production and consumption activities, their concrete conditions, and all modes of exchange. The concept of household as a production and consumption unit can be extended to include firms and the government: all that is required is that they do not undertake net investment, an assumption that will be relaxed later.

Since the economy is assumed to be in a 'natural' position, a state of self-reproduction without any 'quantity dynamics' operating, the

labour processes have a definite tendency to reproduce themselves. Furthermore, since labour processes specify the totality of circumstances in which people live and work, they correspondingly define the feasible economic opportunities viz. the labour and income opportunities, of the households. The set of labour and income opportunities actually available to a household in the given average state of the economy may be called the household's *primary capability set*. It is from this primary capability set that any finer notion, such as Sen's functionings as a person's 'doings and beings', must arise. We shall return to this.

The above scheme which introduces the basis concepts is, however, a snapshot view of the system and is, therefore, simple. It rules out net investment and does not identify the macroeconomic forces that will propel the system to a new natural position. Without bringing in macro interactions it is not possible to trace the generation of primary capabilities and the changes in constraints operating upon them. We turn to consider the dynamics of the system. The systemic forces that operate may be grouped under four heads: (i) Accumulation (ii) commercialisation (iii) role of the state and (iv) socio-cultural and communitarian institutions. Needless to add, mutual interactions among these parameters are not ruled out and are an essential part of the process of development.

Accumulation is a much broader process than mere additions to the stock of capital. It refers to the modes of generation, appropriation and use of 'surplus' (net value added) in the system. Although every economy, even the most backward, does command some surplus, it is the historical conditions of the evolution of entrepreneurial and other accumulating classes and the specific forms of accumulation out of surplus that impart dynamism to the system rather than the mere size of surplus. Integrating accumulation as a parameter into our scheme also requires that the concept of household be extended to include investment activity. In other words, the household will now be a production-

consumption-investment unit. The investment activity as part of the labour process needs specification of the nature of investment (e.g. productive or unproductive), legal form of enterprise, product line, technology, employment and demand characteristics, besides modes of raising finance.

The second parameter refers to commercialisation. Commercialisation may be seen as a process by which systems of exchange develop, previously disparate elements in the system get integrated into the economy and new relations and distinctions between sectors of the economy emerge. This process itself can be an important source of economic growth<sup>14</sup> and in a developing economy it tends to proceed along with accumulation, creating space for the latter.<sup>15</sup> Of particular importance are the dynamics of exchange i.e. the nature and functioning of markets and the content of prices. It has been argued, for instance, that the dynamic consequences of commercialisation for the formation of critical agrarian markets could be perverse.<sup>16</sup> Commercialisation affects labour processes more directly through changes in the terms of agrarian contracts, creating space for growth of petty trade and services, opening up routes for migration of labour and mobility of capital and so on. These, in turn, are critical in shaping the survival strategies of the poor.

Turning to the third parameter of our system, namely the role of the state, we note that the state has an overarching and all important role in shaping labour processes. The state affects labour processes indirectly through strategic interventions in the accumulation process (e.g. planning

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<sup>14</sup> See Baldwin (1969).

<sup>15</sup> Omkarnath (1993) has notes on how this operates in a regional setting.

<sup>16</sup> Bharadwaj (1985).

of some kind), through regular macroeconomic management (e.g. fiscal and monetary policies), and through creating and enforcing a legal framework. There are more direct means as well, such as providing for social consumption, positive discrimination towards specific social groups in social and economic matters, and operating social security systems. Also, new modes of political mobilization may have an important bearing on labour processes by creating new social and community identities. These may generate pressures for earmarking substantial financial resources for an array of 'welfare' programmes. Two implications of the role of the state for labour processes need noting. First, the extant labour processes may not be seen in isolation from policies already in operation. Secondly, an adequate knowledge of the extant labour processes is essential if policies are not to meet with unintended outcomes.

Finally, socio-cultural and communitarian institutions exert an important influence on labour processes. These institutions form the fulcrum from which social values emanate and propagate themselves. These social values in turn shape the civil society and people's perception of freedom and good life. These help transform primary capabilities into Sen-type functionings such, for example, as 'appearing in public without shame'. In the material sphere, these values may help explain the formation of consumption and demand. The neoclassical theory, in contrast, does not explain either 'preferences' or 'social values'. We have noted how macroeconomic forces impact dynamically on the opportunities of people, by easing old constraints and creating new ones.<sup>37</sup>

Some implications of the above framework, for analysis and policy, may be noted. The framework is outlined keeping in mind the institutional

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<sup>37</sup> This is the reason why the growth of non-farm employment in rural India cannot be approached in terms of mechanical 'push' and 'pull' effects, or movements of real wages. See Omkar Nath (1993).

specificities and complexity of a large, primarily developing economy which does not lend itself to useful development analysis in terms of conventional, commodity-centric categories and macroeconomic aggregates. The basic category and unit deployed to achieve socio-economic disaggregation is an adaptation of the Marxian concept of labour process, which sums up the production, consumption and investment activities of a household, together with the social conditions under which these activities are carried out. The social character of aggregate activity in the economy is brought to relief through the conception of the economy as a continuum of labour processes. This allows for multiple and overlapping modes of production and subsistence in the system.<sup>48</sup> The set of labour processes which have a tendency to reproduce themselves in an 'average' or equilibrium state of the economy also define *primary capabilities* or the sets of feasible labour and income opportunities of the households. The dynamics of the system are mediated by four sets of parameters, namely accumulation, commercialization, the role of the state and socio-cultural and communitarian institutions. It is the working of these dynamics that will shape the formation of capabilities. This formulation allows for interaction not only among the forces parametrically given, but feedback reactions on the parameters themselves.<sup>49</sup> While the system in terms of labour processes and

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<sup>48</sup> The multi-commodity classification scheme in Bharadwaj (1979) emphasizes the structure of technological and demand linkages among commodity sectors which are then explained in terms of the conditions of production in respective sectors. In contrast, our scheme starts out with labour processes as the basic category upon which an analysis of commodities can rest. The latter has the advantage of integrating such variables in the system as the role of merchant capital.

<sup>49</sup> In contrast, Sen's construct of 'entitlement mapping' is not germane to an explanation of the generation and modification of entitlements through macro interactions. While the important role of inflationary process is mentioned there, it still begs issues about the content and formation of prices. See Sen (1981).



capabilities may be going through remarkable changes, 'change' reckoned purely in the space of commodities may be little or nothing.<sup>40</sup>

The framework, while consciously free from *commodity fetishism*, does not neglect the important and complex role that commodities do play in a developing economy. With the help of a suitably generated observational base, it should be possible to extend and elaborate the scheme to allow for aggregative analysis of commodities, money, technological and demand linkages in the system. This, in turn, may be expected to form a sound basis for the macroeconomics of a developing economy. There is no presumption here, unlike in Sen's normative conception, that development must necessarily mean a steady *expansion* of capabilities. Our framework allows for the fact that the actual process of development, taken as societal transformation, may well be accompanied by a *contraction* of capabilities either across the system or systematically for certain sections of the population. While not negating conventional national income accounting and aggregative policy models based on extended systems of social accounts, the framework would render their methods and assumptions transparent.

To the extent that carefully designed and well- implemented development policies are met with unintended outcomes, the framework would help locate the actual processes at work at the ground level. The conception of the economy as a set of heterogeneous labour processes is also useful in lending operational content to the concept of 'social safety nets' currently in vogue in countries going through structural adjustment programmes. This concept has no clear meaning in situations characterised by vast reservoir of 'unorganised' labour. Attempts at decentralised development currently envisaged in some parts of the developing world would need to be based on an adequate knowledge of

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<sup>40</sup> This corresponds to the so-called low-level equilibrium trap in the mainstream literature.

labour processes. For on the one hand effective decentralization would eventually involve decentralised production, while on the other hand the very process of decentralised production would raise a major issue of coordination and planning at the aggregate level in a fast integrating global economy. The critical space and strategies for 'public action' will not be evident without a knowledge of labour processes.

It is possible to show that the informational bases required of the framework are not only not demanding in resources but can serve a variety of purposes such as improving the quality of national income data and lending credence to the behavioural assumptions model makers make on *a priori* grounds. Briefly, the informational bases require that we collect data on a finite number of labour processes from a representative sample of households, with village/urban agglomeration as the basic unit of sampling and analysis. Also, a well-designed survey instrument on labour processes would do away with the need for surveys on multiple subjects through independent random samples which raise the problem of matching the data sets at the level of the household.

## 5. Conclusion

We make no attempt to summarize the discussion. The paper has sought to raise certain crucial issues relevant to development analysis and development theory, taking the recent work of Amartya Sen as a point of departure. It points to the criticality of the problem of categories in the study of what has been called continuous change. Arguing that Sen's concept of capabilities, while having much flourish and relevance, leaves the theory of development undisturbed, the paper presents a framework that might help us study the formation of capabilities. Certain implications of the proposed scheme for analysis and policy have been noted. Although a detailed contrast between our scheme and the well-known 'entitlement' approach of Sen is not presented in the paper, the interested reader should have no difficulty in doing so for himself.

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## APPENDIX

### India: Selected Economic Indicators

#### A. Output and Employment

A.1	Annual average growth rate (%) of net national product at factor cost at 1980-81 prices, 1951-94	3.9
A.2	Annual average growth rate (%) of per capita net national product at factor cost at 1980-81 prices, 1951-94	1.7
A.3	Percentage distribution of net domestic product at factor cost at 1980-81 prices by major industry groups, 1993-94	
	- agriculture and allied sectors	31.6
	- manufacturing (incl. mining, electricity & construction)	26.5
	- services	41.9
	NDPFC	100.0
A.4	Percentage of workers to total population, 1991	37.5
A.5	Proportion of cultivators and agricultural labourers in total main workers (%), 1991	64.8

#### B. Organised and Unorganised Sectors

	Organised Sector	Unorganised Sector	Total	
B.1	Share of net domestic product factor cost, 1992-93 (%)			
	total	36.5	63.4	100.0
	- agriculture and allied sectors	3.4	96.6	100.0
	- manufacturing (incl. mining, electricity and construction)	60.7	39.3	100.0
	- services	47.4	52.6	100.0
B.2	Share of economically active population, 1991 (%)			
	8.5	91.5	100.0	

(Appendix contd....)

B.3 Share of factor incomes in net domestic product (%) 1992-93			
- Compensation to employees	64.7	35.3	100.0
- Operating surplus. mixed income	19.2	80.8	100.0

- Sources: (1) Govt. Of India, Central Statistical Organisation, National Accounts Statistics, 1995
- (2) Primary Census Abstract, General Population Tables, Part II B(i), Vol.II (1991).
- (3) Govt. of India, Ministry of Finance, Economic Survey, 1995-96



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