Michal Kalecki and the Economics of Development

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In the long and impressive catalogue of Michal Kalecki's contributions to economics, the proportion of writings devoted to what is now called "development economics" is relatively small. And most of his work in this area is concise to the point of being terse, in short articles that simply state some crucial principles, typically without much elaboration. Nevertheless, these rather brief pieces are so full of insight and sharp analysis that they contain many of the basic principles that still constitute the theoretical armoury of the study of development issues. What is even more remarkable is that, although these pieces were generally written in the mid 20th century in a period when many developing economies were experimenting with import-substituting industrialisation, often in a planning or mixed economy framework, they remain very relevant. Indeed, almost all of his work has strong contemporary resonance, and can still be usefully applied to understanding economic policies and processes in the early years of the 21st century.

Michal Kalecki was born in 1899, into a poor Jewish family in Poland. One of the most productive economists of his generation, he was nonetheless largely self-taught in economics. While Kalecki's theoretical framework came essentially from Marx, his application and development of concepts was the result of observation of economic life around him, and consideration of data. Some of this must have been due to his early training. He studied civil engineering at Warsaw and Gdansk Polytechnic, but could not complete the course for financial reasons. His knowledge of economics was subsequently acquired "on the job", so to speak, as a member of the Institute of Research on Business Cycles and Prices in Warsaw. This led to the publication of his first major work, "Essays on Business Cycle Theory", in 1933. This already described a developed capitalist economy as a demand-determined system in which involuntary unemployment is a likely outcome in the absence of government intervention. The various papers published until 1935 reiterated this conclusion and indicated Kalecki's view of the short-run dynamics of such a system.

Throughout his life, Kalecki remained a non-conformist, providing recurring evidence of his strong intellectual and personal integrity. In 1936, for example, he resigned his job in Warsaw in protest against what he felt were politically motivated dismissals of two of his colleagues. He then went to Sweden and subsequently to England. He was in Cambridge for some time, where he interacted *inter alia* with Piero Sraffa and Joan Robinson, and also had to cope with the frustration of Keynes' failure to recognise Kalecki's independent elucidation of the principle of effective demand and the possibility of involuntary unemployment. In 1940 he moved to the Oxford Institute of Statistics, where his theoretical and applied contributions to economics continued and he became the centre of a circle of émigré intellectuals.

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At the end of World War II, Kalecki worked for some time at the International Labour Office in Montreal, and then subsequently in the United Nations Secretariat in New York, where he was responsible for presenting the World Economic Reports. This international exposure coloured some of his later interests and concerns, in particular the necessity of using different analyses to understand economic patterns in underdeveloped countries, whether socialist or non-socialist. In New York, his spirit rebelled against the growing intellectual intolerance of the McCarthyist period in the US, and he therefore returned to Poland in 1955.

Back in Warsaw, Kalecki very quickly became involved with the planning process through the Polish Planning Commission, as well as in wider economic research with the Polish Academy of Sciences. Much of his work on planning in socialist economies dates from that period. He was also invited for relatively long periods to several developing countries – notably India, Israel and Cuba – where he advised their governments on issues of development planning and honed his analysis of the problem of financing development. Frequent travel to Latin America, especially Mexico, gave him even wider experience of different developing economies.

In addition, some of his teaching and research activity at Warsaw also brought him directly to the study of economic development. From the end of the 1950s onwards, he organised an Advanced Seminar for Experts on Planning Economic Development of Underdeveloped Countries. This eventually metamorphosed into the Centre of Research on Underdeveloped Economies in 1961, with Kalecki as Chairman of the Research Board, which became a focal centre for such research. There was also involvement, in terms of policy advice, with nascent UN organisations such as UNCTAD and FAO.

Notwithstanding Kalecki's growing stature and recognition among all those involved with planning and development, there was sustained lack of appreciation of the originality and significance of his work in the mainstream English language academe. This was true especially of his seminal work on the macroeconomics of developed capitalism. Despite Joan Robinson emerging as his champion, there was almost no transatlantic recognition or even knowledge of Kalecki's contribution, and even to this day mainstream economists either assume that the major insights into unemployment equilibrium were all the fruits of Keynes' work, or restate many of Kalecki's propositions today as if they are entirely original and new.

There are some features of Kalecki's approach to economics which are especially significant with respect to analysing development. There is no doubt that his approach to the problems of economic growth and change in the South was influenced to a significant extent both by his understanding of developed capitalist economies and his work on planning in socialist countries. However, he was always careful not to mechanically reproduce conclusions that were relevant in those contexts to other, rather different situations. He identified critical features of developing economies that made them fundamentally different from advanced capitalist economies, as discussed in the third section below. He was also extremely sensitive to the important roles played by particular

social, political and economic configurations and historical processes in affecting both macroeconomic processes and economic policy outcomes.

This does not mean that he therefore fell into the opposite trap of rejecting the applicability of economic theory for examining problems of development. Rather, his theories were always grounded in relevant stylised facts, and sought to examine issues with reference to the entire economy, indeed to the political process that underlay it. This highlights another essential feature of his analysis: his fundamental assessment that economics is ultimately about politics; that any analysis of an economy that seeks to abstract away from the socio-political determinants and implications of economic phenomena would not only be inadequate, but plain wrong. In particular, the distributive implications of economic strategies were of great concern. This remains critically important, and serves as a useful antidote to the de-politicisation of much recent work on the economics of development, which tries to ignore such reality, or to subsume all political and distributive aspects under the misleading appellation "governance".

By the time Michal Kalecki died in 1970, his intellectual output was massive, diverse and unfailingly penetrating and insightful. He was also largely unsung, having come under pressure even in Poland for his non-conformist positions on a range of issues. In 1968, as he had already done twice before, Kalecki resigned from his job, once again in protest at the unfair dismissal of some of his colleagues who were closely associated with him. However, he continued his intellectual activity until his death. Apparently in his later years he felt that his policy advice had been mostly unheeded, joking that he had been influential only in Israel, where the government had done exactly the opposite of what he had suggested. Yet today, his assessments remain not only sharp and valid, but eminently practicable, with the major constraints being only the political pressures of which he himself was so well aware.

The Macroeconomics of Developed Capitalist Economies

It is well known that Kalecki, working independently and coming from a very different theoretical tradition, worked out the essentials of what is now known as "Keynesian" economics well before the publication of Keynes' *General Theory.* His early work on business cycles, dating from the early 1930s, had already established some of the basic principles – in particular the importance of effective demand in driving the short-run dynamics of the system, the possibility of involuntary unemployment and the necessity for government intervention. Even these early contributions established the inherently cyclical character of change in a *laissez faire* capitalist economy.

However, Kalecki's description of both short-run and long-run dynamics of advanced capitalism had greater richness and complexity because he was not hampered by a reliance on standard equilibrium analysis, but was rather working with the inherently more dynamic notions of investment, oligopolistic behaviour, technical progress and the like. Unlike Keynes (whose theoretical framework remained essentially Marshallian) Kalecki based his analysis on the Marxian reproduction schemes which made the crucial distinction between investment goods (Department I) and consumption goods (Department II). He distinguished between those variables that become active

determinants of levels of income (such as investment, export surpluses, government deficits) and those which are passive outcomes of the process (such as workers' consumption).

Like Keynes, Kalecki emphasised that while *ex post* savings and investment are equal, it is investment that is the active factor that determines savings; further the equality is not brought about by changes in the rate of interest (which he recognised to be a policy variable) but by changes in the level of economic activity. This is because Kalecki believed that in general there is unutilised capacity in capitalist economies. Within investment, he made the important distinction between investment decisions and actual investment outlays (which follow with a time lag). This is important because investment operates immediately to increase the level of output, but also raises capacity, and the increased capacity affects investment decisions in the next period. This in turn limits future output, and creates over time a pattern of cyclical movement of output. This paradox, which is peculiar to capitalism, was summed up by Kalecki (1937: 77) as follows: "The tragedy of investment is that it causes crisis because it is useful."

Kalecki's theory of price formation was critical in relating aggregate income to its distribution in advanced capitalist economies. In Kalecki's model, capitalists are assumed to spend on investment and luxury consumption; workers spend on wage goods and do not save. The prices of primary products (or raw materials) are determined by demand and supply; the prices of other products are cost-determined with oligopolistic mark-up. This mark-up in turn depends upon the "degree of monopoly", which reflects forces such as the extent of concentration of production, the requirements and extent of sales promotion and the bargaining power of workers. Therefore the mark-up is not constant over time, but reflects economic and political dynamics. The Kaleckian multiplier emerges from the wage share of national income as well as the propensity to consume out of profits. The share of profits in income depends upon the degree of monopoly, while the amount of profit realised over a period depends upon capitalists' expenditure.

In this formulation, government intervention can prevent cyclical behaviour and allow for full employment. It is also not seen as necessary for the government to run continuous budget deficits to achieve this, since the expenditure can be met by taxing profits, which would simply reduce profits to the level that existed before the increase in government expenditure, while ensuring higher levels of production. But even loan-financed government expenditure can achieve the goal, so that "in this way, one of the basic contradictions of the capitalist system is solved by a sort of financial trick." (1966:14) While this may appear to be strange, it reflects the tendency of unemployment of resources through inadequate effective demand which is inherent in the capitalist system. "The artificiality of the underemployment of resources is overcome by the artificiality of the financial trick consisting of loan-financed *ad hoc* government expenditure." (1966:14)

The most rational course for a government wishing to increase public spending in a context of unemployment would be either to spend on investment and therefore contribute to future development, or to increase expenditure or reduce taxation in such a

way as to improve the consumption of the masses. But in general in advanced capitalist countries, Kalecki felt that the means chosen is neither of these, but rather government expenditure on armaments. This is wasteful and destructive but nonetheless preferred by workers in developed countries, because it provides levels of employment and wages that would otherwise not be possible in the absence of such spending.

However, Kalecki maintained that continuous full employment is unlikely under capitalism, because of opposition from the domestic capitalist class. In his famous 1943 paper "The political aspects of full employment", he argued that capitalists would oppose such levels of government expenditure not only from a dislike of government interference in general and the direction of public spending in particular, but even more crucially because of the social and political changes (essentially greater bargaining power of workers) resulting from the maintenance of full employment. His was therefore the first, and is still the most useful, model of a "political business cycle".

Kalecki (1954: 52) was also well aware of the significance of external markets in playing a role similar to government expenditure for a mature capitalist economy. He described the government deficit as "internal exports" to be compared with the "external profits" to be had from imperialist interaction with other less developed economies. "The fight for the division of existing foreign markets and the expansion of colonial empires, which provide new opportunities for export of capital associated with export of goods, can be viewed as a drive for export surplus, the classic source of 'external' profits. Armaments and wars, usually financed by budget deficits, are also a source of this kind of profits."

According to Kalecki, there is nothing in the mechanics of advanced capitalism which make long-run growth inevitable. However, two semi-exogenous factors interact to produce patterns of long-run economic change. The first is innovation, which Kalecki defined to include not only technological progress *per se*, but also the introduction of new goods, the opening up of new markets, organisational changes, and so on. This obviously has a positive effect: the higher the intensity of innovation, the higher the rate of growth of the economy. The other, constraining factor is "rentier savings", that is, savings outside firms, which depress investment and therefore inhibit growth. The relative strength of these two factors determines the long-run rate of growth. The contemporary relevance of this argument, in a world of rapid technological progress but also of financial liberalisation and growth of rentier incomes, is worth noting.

Differences between Developed and Developing Economies

The essentials of the theoretical framework developed by Kalecki for developed capitalist economies were utilised by him for analysing capitalist or "mixed" developing economies as well. Thus, the pattern of price formation remains the same, with the prices of primary commodities being determined by the interaction of demand and supply, while finished goods prices reflect oligopolistic mark-up. Political influences upon economic policies and processes also remain critical. However, in some major respects, the stylised facts that Kalecki observed were different for developing economies, and this meant that

both economic mechanisms and the government policies that could be used to influence them, changed.

Kalecki saw the difference in the nature of unemployment as the most critical macroeconomic distinction to be made between developed and developing non-socialist economies. In developed capitalist economies, as described above, unemployment was seen to be related to the inadequacy of effective demand. This in turn meant that in a context of idle productive capacity, measures such as increasing government expenditure in order to raise the level of aggregate demand, through the "financial trick" outline above, would be effective in tackling the problem. In underdeveloped economies, however, Kalecki viewed the problem of unemployment (or underemployment) as structural, resulting from the basic and endemic shortage of capital equipment as well as bottlenecks in the supply of necessities. The solution to the problem was therefore also seen to be different and more difficult, since in such a context increased government expenditure could simply add to inflationary pressure.

This point became so central to all of Kalecki's subsequent analyses of development, that it deserves greater elaboration. Kalecki did not deny that in an underdeveloped economy there may be a deficiency of effective demand, or that even the meagre level of capital equipment that exists could be underutilised. However, he argued that the basic difference is that even if all the available capital equipment were to be utilised, it would still not absorb all the available labour force. This in turn means that the standard of living is typically low for the broad masses of the population. This makes the solution to the unemployment (or underemployment) problem more complicated and harder to do, since it must necessarily involve an expansion of productive capacity.

Therefore, the central macroeconomic issue in a developing economy becomes that of increasing investment. However, Kalecki envisaged three important obstacles to such a strategy. The first is that private investment may not be forthcoming at the desired rate. Of course, in such a case, government investment can fill the gap, although the crucial issue of financing such government investment remains significant. Second, there may be no physical resources to produce more investment goods. In this case, Kalecki mentioned the possibility of using foreign trade, i.e. importing such investment goods, financed either through increasing exports or through reducing non-essential imports. Third, there is the problem of ensuring an adequate supply of necessities to cover the demand resulting from increased employment. Shortage of necessities (especially food) would create an inflationary problem which would not be overcome through taxation of profits, and which would involve real wage declines which Kalecki found to be unacceptable. This could be avoided if an increase in the supply of necessities matched the growing demand for them, in accordance with a planning process. However, Kalecki noted the considerable political and practical obstacles to introducing some sort of planned economy and extensive government control upon private economic activity.

Indeed, it was the political obstacles that Kalecki found to be the most critical, because of the adverse reaction of domestic and foreign capitalists as well as other vested interests such as landowning elites. There would inevitably be opposition to some of the

requirements of balanced development, such as increasing public expenditure by taxing the rich and altering agrarian relations. This is why, according to Kalecki, rapid but balanced economic development is so rarely to be found in practice, and instead two extreme patterns (or variations of them) are more commonly observed among underdeveloped economies: either non-inflationary but slow growth, or relatively rapid growth accompanied by violent inflationary pressures.

This meant that for Kalecki the basic condition for breaking out of the cycle of economic backwardness was a substantial increase in agricultural output (since food dominates in the basket of necessities). In this context, he recognised the basic constraint posed by land relations, and emphasised the need to change both ownership and land tenure regulations as necessary preconditions for non-inflationary redeployment of labour surpluses for industrialisation. He even argued that the agrarian constraint could prevent industrial growth not just from the supply side but also from the demand side. This point deserves to be emphasised, since his analysis helps in showing that a demand problem may coexist with the problem of inflation in developing countries. This insight became important in subsequent discussions of development experience in India (see Chakravarty 1993) and elsewhere.

The argument was briefly stated as follows: "It may be shown that in some cases the rigidity of the supply of food may lead to the underutilisation of productive facilities in non-food consumption goods. This will not be the case if the peasants profit from the increases in food prices, because then they buy more industrial consumption goods out of their higher incomes. However, if the benefits of higher food prices accrue to landlords, merchants or moneylenders, then the reduction in real wages due to the increase in food prices will not have as a counterpart an increased demand for mass consumption goods on the part of the countryside; for increased profits will not be spent at all, or will be spent on luxuries. In this case, the high demand generated by a rapid development involving large-scale investment will not create a market for industrial mass consumption goods." (Kalecki 1955: 29)

This is why Kalecki emphasised that investment in infrastructure and industry must be accompanied by measures to expand agricultural production in the long and short term. Possible measures, according to Kalecki, ranged from land reform and cheap bank credit for the peasantry, to technological changes in cultivation practices, small-scale irrigation, and provision of cheap fertilisers and other inputs.

Such analysis was relatively unusual at the time, when most "development economists" were focussed single-mindedly on increasing industrial growth. But this idea, advocated in the mid-1950s, was vindicated by the food shortages that emerged across many developing countries a decade later. It was to prove extremely influential and made Kalecki an unwitting founder of the structuralist school in Latin America and elsewhere, which attached critical importance to structural factors in the development process.

The need to ensure non-inflationary (and therefore "balanced") development was so important for Kalecki that the issue of financing development assumed centrality in his discussion of development. This is because he took the danger of inflation in developing countries extremely seriously. The fundamental reason for his abhorrence of inflation was its effect in reducing real wages, which he regarded as unacceptable.[2] The most obvious reason for such distaste was in terms of an ethical opposition, since in both developed and developing capitalist economies (and indeed, even in socialist economies) Kalecki resisted the possibility of financing growth at the expense of the working class. In poor countries with already low level of workers' incomes, reduction in real wages was all the more impossible for Kalecki to accept. Therefore the assumption that real wages must not fall was for him the starting point of any development strategy.

In addition, Kalecki was opposed to inflation because he believed that persistent inflationary pressures led to excessive and unproductive hoarding of stocks; to capital flight, currency speculation and consequent balance of payments difficulties; as well as to disturbances in the investment process itself. He felt that these consequences could make inflation permanent (in an early anticipation of what has become known as "inflation inertia") and could even retard or stop the development process itself. He also recognised that intensifying inflationary pressures give rise to political tensions that the ruling classes in developing countries find dangerous, and which are therefore sought to be reduced by importing necessities financed through foreign capital inflows. Part of the problem is that the capitalist growth process itself generates inequalities and deflects resources into luxury consumption, which is why balanced development also requires measures to control growing inequality of incomes.

In the current mainstream dogma about inflation, monetary measures are given supremacy and indeed inflation control is typically viewed as the main function of central banks. However, Kalecki reiterated that the issue of avoiding inflationary pressures in the course of economic development is not a "monetary" one at all, but rather is solved by assuring a correct structure of national expenditure. This requires that the supply of necessities is in the desired relation to the level of national income; that expenditure on non-essential consumption is sufficiently restrained as to provide adequate savings for the financing of both public and private investment; and that private investment is sufficiently restrained as to allow for the financing of public investment.

Financing Development

In all of Kalecki's writings on development, the issue of financing of economic growth received probably the most attention. The problem was not seen in purely monetary terms, but in terms of the more critical issue of the distributive implications of financing, that is, which groups in society (or outside) would bear the burden of increasing capital formation through reductions in consumption. For Kalecki, desirable economic development necessarily involved that no inflationary price increases of necessities,

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[2] It is interesting to note that as early as 1953, such a position had brought Kalecki (who was at that time working at the Economics Department of the UN) into conflict with economists at the World Bank and IMF who saw lowering wages as a means of improving external competitiveness and allowing for domestic stabilisation.

especially staple foods; no taxes levied on lower-income groups or on necessities; and effective demand restrained only through raising direct taxes on higher-income groups or indirect taxes on non-essentials. This squarely puts the burden of financing investment on richer groups in the society, but it also entails larger domestic agricultural output.

As he argued, "There are no financial limits, in the formal sense, to the volume of investment. The real problem is whether this financing of investment does, or does not, create inflationary pressures" (Kalecki 1955: 25). And this of course depends upon the possibility of expansion of the supply of mass consumer goods in response to increased demand. The associated need to increase food production and the methods through which this can be achieved have already been discussed above; here some further implications are considered.

As noted above, Kalecki argued that an increase in investment under conditions of inelastic food supply would cause a fall in real wages and would consequently generate an inflationary wage-price spiral. But this need not be associated with substantial increase in demand for mass consumption goods produced by industry. This is why expansion of the output of food is of central importance in the process of development, and why he stressed measures that would improve land productivity for agriculture.

It could be argued that increases in industrial productivity would have the same effect. However, Kalecki noted that while an increase in food supply tends to raise real wages at a given level of non-agricultural employment, an increase in industrial productivity increases real wages through reducing employment at a given level of non-agricultural output. It is easy to see which alternative is preferable in a labour-surplus developing economy.

This approach also makes it clear why Kalecki emphasised the direct taxation of profits or the indirect taxation of luxury consumption items – not only to ensure resources for public investment, but also to prevent public investment from increasing profits and therefore capitalists' luxury consumption. In fact, this was seen to be an absolutely essential role of government in the industrialisation process: to extract a part of private capitalist profit through taxes and use it for capital formation - which would also benefit the capitalists over time. However, such taxation would not neutralise the potentially inflationary impact of higher public investment.

It is noteworthy that Kalecki was quite sceptical of the use of foreign capital to finance this necessary investment for development. On the one hand, he recognised the importance of foreign capital inflow to enable essential imports including of capital goods for industrialisation, and that such inflows could ease the domestic financing problem by allowing food imports. However, he felt that in general foreign capital presents problems of a very basic nature for a developing economy. Foreign direct investment tends to occur in areas (such as the production of raw materials for export) which may not be in line with the basic development plan of a country. In addition, profits transferred abroad can exceed the cost of servicing a foreign loan, while reinvested profits could simply add to the book value of foreign investment with no

further inflow of capital. Foreign credits, or external commercial borrowings, involve interest repayment which can become a heavy burden in future. Even foreign aid is problematic because of all the successive dislocations caused by additional imports financed through such aid.

In this context, Kalecki (1966: 66) proposed two criteria for evaluating foreign aid, which remain extremely relevant to assess all forms of foreign capital inflow. First, to what extent has this inflow improved the country's balance of payments position; and has this improvement been used to remove the bottlenecks in the supply of capital goods, necessities, luxuries or intermediate goods? Second, were the additional financial resources instrumental in raising the rate of growth by increasing investment over the level of domestic savings or releasing local savings for consumption; and if they did so, did they finance an increase in the consumption of necessities, of luxuries, or materialise in a higher volume of social services?

Even the most cursory examination of the experience of the past two decades will suggest that according to these basic criteria, most of the foreign capital inflow into developing country "emerging markets" in the era of globalisation did not achieve these most obvious goals of development. Thus, Kalecki's scepticism appears to be amply vindicated even by very recent international experience.

Indeed, Kalecki noted that, given the difficulty of securing desirable forms of foreign capital inflows into developing countries, it may be preferable for them to consider means of preventing capital export, which amounts to the same thing in terms of releasing foreign exchange resources. Here he noted that what must be regulated is not only visible capital flight, but also hidden transfers (such as through over-invoiced imports and under-invoiced exports) which are often of even greater quantitative significance. Another route could be to reduce the dividend repatriation by foreign enterprises. He also pointed out that an improvement in the terms of trade has an effect analogous to capital inflows, without all the attendant difficulties of foreign capital. Conversely, of course, a deterioration in the terms of trade can take away the benefits of productivity growth in the export sector.

The Planning Process

A substantial proportion of Kalecki's work was devoted to the analysis of planning in socialist economies. Some of this continues to have substantial relevance for growth and planning even in mixed or capitalist developing economies, since the basic principles he elaborated still determine the possibilities for long-run growth. While Kalecki opposed some of the excesses of central planning, he was also whole-heartedly against the idea of "market socialism" since this gave play to the capacity of the market to make wrong macroeconomic decisions. However, even under central planning certain contradictions persist, most significantly the trade-off between current and future consumption. He recognised that resolving this necessarily required political compromise, since it could not be reduced to purely economic considerations.

The other factor limiting freedom of choice in planning was the emergence of long-run development bottlenecks, such as limited natural resources, shortages of certain kinds of skilled labour and difficulties of adapting technological changes. He saw that all of these gaps could be bridged through foreign trade, but that would be at the expense of widening trade imbalances. This made him stress the need for moderate and realistic plans rather than very ambitious growth targets.

A similar approach made him take a particular attitude with respect to the debate on choice of techniques in a developing country. The Dobb-Sen strategy (proposed by Maurice Dobb and Amartya Sen) relied on maximising investible surpluses, maintaining constant real wages and using the entire increase in labour productivity to raise the rate of accumulation. Kalecki opposed the assumptions made in this argument, of unchanging technology (i.e. no technological progress) and "instant" recasting of the economy into a higher capital-output ratio. In addition, he felt that most capital-intensive techniques would have to be imported, making them even less attractive. He argued that "the more capital-intensive technique is not *per se* either superior or inferior: the choice of 'right' capital intensity depends upon the availability of labour (allowing for technological limitations and maintenance of real wages)." (Kalecki 1967: 94)

Kalecki's solution therefore preferred the technique that maximised output rather than surplus. Indeed, he considered labour-intensive techniques of production to be preferable in general for developing countries with large labour reserves, except only in those sectors where the technology did not allow it. Even in agriculture, he was against mechanisation since he felt it usually did not increase output per acre but only output per worker, thereby creating rural unemployment. He emphasised instead ways of intensifying agricultural production in labour-intensive ways.

Chakravarty (1993) has noted that since Kalecki dealt with vertically integrated sectors in his formulation, this effectively short-circuited some of the inter-sectoral relationships in a growing economy. He also therefore missed out on the potential significance of the self-reproducing capital goods sector, which played such an important role in the planning models of Fel'dman and Mahalanobis, among others. While Kalecki did not address this range of questions, his insights into the planning process remain significant.

The Politics of Development

It is evident that Kalecki was acutely sensitive to the political pressures and constraints that informed the process of development, and was also well aware of the complex interaction between the power of different classes and groups, economic policies and their growth and distribution outcomes. Some of this consciousness, which actually permeated most of his work, was crystallised into a more specific formulation regarding "intermediate regimes". This is how he characterised some developing countries in which, according to him, the old feudal classes had been dispossessed and large capital had not developed, so that political power at independence had passed into the hands of the lower middle classes and peasantry. He characterised countries such as India, Egypt

and Bolivia, for example, as "intermediate regimes", and gave rise to a substantial, if controversial, literature on the subject.[3]

Kalecki argued that such a group, to keep in power, must gain a measure of independence from foreign capital, carry out land reform and assure continuous economic growth. This means that the government comes into conflict with "comprador" elements as well as with feudal landlords. Kalecki noted that it was possible that over time the lower middle class could become subservient to big business, but that this is often prevented by the basic weakness of this class and its inability to undertake large-scale investment. This means that the basic investment for economic development must be carried out by the state, which is why lower middle class interests are amalgamated with those of state capitalism. Such state capitalism favours the lower middle classes (including small scale businesses) and the peasantry, but continues to suppress the poor peasantry and rural proletariat, as well as urban workers.

Whatever one may think of the applicability of this analysis – and there have been numerous criticisms of it with reference to particular countries that Kalecki thought it applied to – there is no doubt that it represents an original and striking use of political economy concepts to understand both broad macroeconomic strategy and its effects in developing countries. The method of this analysis, rather than the analysis itself, serves as a useful inspiration to other assessments of the process of development, which look for explanation towards political economy and class configurations to understanding both economic policies and their effects. This is in sharp contrast to the purely "technocratic" assessments that are currently so popular, which abstract completely from the basic politics of development or view it only in terms of rather limited "interest groups". For this alone, this particular contribution of Kalecki remains of value.

Conclusion

It is apparent that Kalecki's contributions to the economics of development covered a very wide range and also provided insights that remain acute and immensely valuable several decades after he wrote. While many of his conclusions can still be usefully applied to understanding economic processes in developing countries, it may be that the true value of his contribution extends beyond specific arguments. Kalecki's entire approach, which combined analytical rigour with a sense of historical specificity, awareness of political and social constraints and acceptance of the complexity of the interaction between policies and socio-economic processes, is really what contemporary economists have to incorporate, if development economics itself is to be regenerated.

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