AGRICULTURE - INDUSTRY RELATION, THE PROBLEMS OF EFFECTIVE DEMAND AND SUPPLY CONSTRAINT: 
Towards A Theoretical Framework

Abstract

We analyze in this work the linkages between the industrial sector and other sectors of a less developed economy, specifically, agriculture and the government in a multi-sector macroeconomic framework. The basic structure focuses on a capitalistic industrial sector and the precise question we ask is: how can growth of agricultural productivity lead to industrial expansion in the presence of social resistance to a historically evolved (or settled) pattern of income distribution between farmers, industrial capitalists and industrial working class?

Growth of agricultural productivity creates a potential for industrial expansion from the supply-side. On the demand-side, realization of this potential without involving distributional conflict requires an adequate adjustment of the real government expenditure on industry.

Thus, our basic position is that an appropriate government intervention through Kaleckian ‘domestic exports’ can mitigate the ‘problem of effective demand’ faced by the industrial sector. On the other hand, following Kalecki, we also recognize that agricultural expansion can relax the supply-side constraint for industrial expansion through the provision of ‘wage-good’. With this perspective, it is also shown that these demand and supply side inducements should be complementary in nature to ensure a non-inflationary expansion of industrial output and employment. Stated otherwise, it is proposed that the issue of demand-creation for industry cannot be separated from that of supply-side support to the industrial sector.

As an extension of our basic structure we incorporate the scope of government intervention in the food-market. The assumption is that the additional food following a rise in agricultural productivity is fully procured by the government to stabilize food-price and to initiate ‘food for work’ programme. Rise in agricultural productivity, then, generates rural non-agricultural employment whereas urban industrial employment remains unchanged. In other words, there is a problem of conflict between rural and urban employment. The conflict is partially mitigated in the case of ‘partial-procurement’ of the additional food.

Next, we consider, a division of the industrial sector into ‘formal’ and ‘informal’ ones. The food-supply is obviously allocated between these two divisions of the industrial sector. Consequently, output and employment of the formal industry will be less in presence of the informal sector for a given level of food-supply, generating a basic conflict between these two sub-sectors of industry. The benefit of an increase in agricultural productivity on the two sub-sectors of industry will depend crucially on the policy undertaken to boost agricultural production. As agricultural output is increased through ‘technical progress’ the benefit is shared between the formal and the informal sectors. However, increase in agricultural output resulting from ‘land-reforms’ benefits the informal sector whereas the formal sector may even contract.