

# National Economic Integration: A Case of Nepal

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## INTRODUCTION

In the developing countries integrated approach to economic development is regarded to be emerging reality especially in rural development. Developing countries are characterised by dualistic economy. "Almost all the underdeveloped countries have a dualistic economy. One is the market economy, the other the subsistence economy. One is in and near the towns, the other in the rural areas. One is developed and the other is less developed."<sup>1</sup> Money and barter economy, urban and rural economy and technically advancement and backwardness are the visible characteristics of dualistic economy. This sort of differentiation hinders the smooth and circular functioning of national economy. Consequently it creates the different isolated pocket economy mainly based on subsistence, tradition and barter. It is the main obstacle to market perfection, resource use and specialisation. Hence the total volume of economic activities would be at a very low level indicating subsistence and poverty ridden economy.

Disintegrated economy not only creates isolated pockets in the economy, but it also creates the lag in national policy implementation. Because, unstructured barter economy generally do not come under the per-view of national policies, as policies are formulated mainly focussing monetised, urbanised and structured sector of the economy. Lags in national policy implementation in the sixth plan (1980-85) has clearly been visualised as a major challenge and states as "to narrow down the gulf between planning and implementation, between word and deed, and to step forward to carry out what has been laid down and translated the vision into reality."<sup>2</sup> Furthermore, economic integration has been regarded as the principle means of political integration as well.

## CONCEPTUALIZATION OF NATIONAL ECONOMIC INTEGRATION

To conceptualize the national economic integration, our attempt is directed toward, firstly national integration in general and finally economic integration in particular.

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The dictionary meaning of integration is to make whole or to complete by bringing together the parts. Alternatively, national integration seems to be the bringing together of different parts into a whole or a process of bringing smaller societies together into a nation. In many developing countries people find their loyalty and sense of oneness, not within the nation as a whole, but within a special small, regional, ethnic, language or religious group. National integration will lead to a drawing together of these diverse elements into something more cohesive with the parts linked more closely together. In the words of M.P. Poudyal "National integration refers to a process in which a deliberate policy and process may or may not have impact. .... National integration is also used for the process of increasing governmental capability to penetrate throughout the nation."<sup>3</sup>

"The term integration is widely used and covers an extraordinarily large range of political phenomena, human relationships and attitudes such as the integration of all diverse and discrete cultural loyalties and the development of sense of nationality, the integration of political units into a common territorial framework with a government which can exercise authority, the integration of rulers and ruled, the integration of positive actions."<sup>4</sup>

Wriggins considers the following five conditions in promoting national integration:<sup>5</sup>

- the effort to cope with foreign foes,
- the political style of leaders who play down differences and guide men forward together,
- the character of political, administrative institutions such as bureaucracy, the army, the school system, communication in general and political parties and legislatures,
- the matter of national ideology defining both goals and ways to achieve them,
- the expansion of opportunity and broad economic growth.

From the foregoing presentation we can conclude that the term national integration covers a wide range of human relationships and attitudes. In broader perspective national integration used to refer to the total process of nationbuilding.

Now, let us turn towards the concept of national economic integration. A dictionary of economics and commerce defined integration as 'a term used either of the structure of an industry or of an amalgamation of firms.' Similarly A New Dictionary of Economics put it as 'when two or more firms unite in some forms or other the process in variously called absorption, amalgamation, fusion, merger or take-over, and sometimes integration.'

P. Sargent Florance refers to integration as the scope of activities or transactions found under any sorts of single control' and says that the very basis of the structure of industrial activity ..... consists ultimately in the degrees of specialisation and integration. He suggests that it might be clearer if instead of convergent, divergent, vertical and diagonal we used the term 'materials', 'products', 'process' and 'services' integration. These types of integration, however, named are concerned with stages in the flow of product from raw materials to the market. Integration can therefore clearly be backward-towards the raw materials and forwards-towards the market.

"Integration can generally be assumed to yield certain economies but it is not an automatic sign of efficiency. .... a certain degree of vertical and diagonal integration is almost always present in modern industrial organisations."<sup>6</sup>

An integrated view of area development must not end with technological improvements. The structure of rural society and land-men relationship, social relationship between different classes, the equitable flow of resources and benefits to and by the various socio-economic groups and individual must all be taken into account in planning and execution, if the initiative of the vast majority of the people is to be released for the task of development. Integration must be conceived not only horizontally, but also vertically. This call for institutional changes and innovative organisational patterns.<sup>7</sup>

"Where a firm performs consecutive process, i.e. different stages of production and/or distribution, it is vertically integrated."<sup>8</sup> Similarly "..... an industry is horizontally integrated if there is a general tendency for firms in that industry to specialize in single process...."<sup>9</sup> Diagonal integration means the provision of auxiliary goods or services required for the several main process."<sup>10</sup> Sargent Florance suggest that it might be clearer if instead of convergent, divergent, vertical and diagonal, we used the terms 'materials', 'products', 'process' and 'services' integration."<sup>11</sup> These very typology of integration suggest the aspects of integration.

The Fourth Five Year Plan (1970-75) has defined the national economic integration as "the best way to integrate the national economy is to establish the nature and scope of the complementarity of the northern and southern part of the growth axes in terms of organic circulation in trade, labour and capital."<sup>12</sup>

With these definitions at hand, economic integration means organisations of consumption, production, exchange and mobility of economic variables into a broader national economic framework. It encompasses spatial integration along with the functional integration of economic activities. It implies to break down the isolation of pocket economy which is mainly due to geographical reason, and enhance the degree of interdependency among and within geographical and sectoral activities on the basis of division of labour, specialisation, natural endowment of resources and cost effectiveness. Regional disparity of investment and consequently

in the creation of production base, among different geographical, ecological and administrative zones should maximally be narrowed down. An uninterrupted play of invisible hands of economic forces and consequently the establishment of responsive for sensitive economy seems to be the visual characters of integrated national economy. Creation/establishment of productive base which is best suited to the local level genes and resources, and interlinked it with broader national economy is regarded to the economic integration. This sorts of integration might be horizontal, vertical, convergent, divergent and diagonal, backward, and forward and so on.

#### NATIONAL ECONOMIC INTEGRATION: PLANNED PERSPECTIVE

The Third Five Year Plan (1965-1970), among its main objectives put it that "to promote the welfare of the people by securing and protecting a just social order while bringing about harmony in the national life by integrating and consolidating the interests of different classes and professions."<sup>13</sup> The Third Plan not only envisaged economic integration but also socio-economic integration.

The Fourth Five Year Plan (1970-1975) has explicitly envisaged the national economic integration in the objective of regional planning as "integration of national economy." It states further that "the increasing dualism between the mountains and hills on the one hand and the Terai on the other is both an economic and political reality, and it is imperative that this differential be minimized."<sup>14</sup> This visualized that there is no interlink and interdependency between hills and Terai. "..... the desirability of political integration of the north (Bhot and Pahar) and the south (Madhes) of the country is best attained through economic circulation between these different geographical regions."<sup>15</sup> It also shows vividly that economic integration has been regarded as the principle means of political integration. In this regards, regional development programme has been initiated on the basis of four growth axis as: (a) Koshi, (b) Gandaki, (c) Karnali and (d) Kathmandu. ".....the four growth axis outlined above offer the greatest prospects for the integration and coordination of the different development programmes since they present both the east-west and north-south territorial dimensions of the country."<sup>16</sup> Indeed the main reasoning behind the development of growth axis in regional planning is "to tie-in the economy of the developing Terai with those of the hilly areas."<sup>17</sup> The best way to integrate "the national economy is to establish the nature and scope of the complementarity of the northern and southern part of the growth axis in terms of organic circulation in trade, labour and capital."<sup>18</sup>

The Fifth Five Year Plan (1975-80) states the regional balance and integration as an important objective of the plan. Viewing the concentration of development expenditure in certain pockets and deprivation of others, the plan realised that "interregional economic relations would be jeopardise through exchangeless and isolation. And which hinders national unity and obstruct to tapped the regional natural resources and development potential. The plan put it further that to further wide the scope of development works, regional outlook should be the real basis

of national planning. For this purpose, division of kingdom into four development regions, four development axis, and sectoral specialisation in different ecological zones have been made. This plan had tried to reduce regional disparity alongwith to integrate Terai, hills and mountain."<sup>19</sup>

The Sixth Five Year Plan (1980-85) do not stipulate the national economic integration explicitly. Albeit, strategies to national economic integration and reducing regional imbalances have vividly laid down. Viewing the disintegrated market, amongst the basic strategies of this plan, to develop the small and cottage industries has laid down, while to decentralise the economic decision-making process to develop the institutions which assist to enhance production are the complimentary strategies in making of integrated national economy.

The Seventh Five Year Plan (1985-90), the current plan, has laid down a basic development strategy as "to consolidate the foundations of national economic integration."<sup>20</sup> To reduce regional imbalance has been envisaged as the basis of the integration of the economy. To realise the objectives like agricultural, forest, soil conservation, and tourism development programmes will be launched on a priority basis to faster the productive capabilities of the remote and backward hill areas. "In conformity to the planned objectives of providing minimum basic needs of the people, the policy shall give priority to raise the level of investment in the areas for the expansion of drinking water, basic health care, primary and skill oriented education and rural transport facilities."<sup>21</sup>

#### BASES OF NATIONAL ECONOMIC INTEGRATION

Keeping the conceptual background in mind here it is tried to explore and evaluate the bases of national economic integration mainly based on Nepalese context.

##### Monetisation of the Economy

Subsistence and barter economy, which is the common feature of developing countries, is the reverse situation of monetisation. It seems to be the common phenomena in the most part of the state territory. It directly obstruct the working of constilating forces of production and exchange among the pockets. "Where the institutions of money is, but little developed there, trade is little developed, industry is primitive and market values remain low. On the other hand in a developed money economy with its elaborate edifice of credit, industry and trade turn out to be highly organised."<sup>22</sup>

Since, money itself is a indicator of development and civilisation, "the monetary system of a country reflects its economic progress. The system of exchange is at once a cause and consequence of the stage of economic development of a country."<sup>23</sup> Money is not only a vehicle of social and economic reforms, "..... money is the indispensible pre-requisite to the assembling of the concrete instruments of production."<sup>24</sup> Moreover "the existence of a monetary economy helps society to discover

what people want, and how much they want it and to decide what shall be produce and what quantities and to make best use of its limited productive power."<sup>25</sup> The modern large markets could have scarcely existed without the use of money as a medium of exchange. Alongwith, it is the generalised form of capital which can be immediately transfer for investment to distance places. To sum up, money is the pivot around which the economic activities moves around. Hence, from these very informations it can conclude that monetised economy serves the most important and central basis of national economic integration.

### Planning

The development planning is sometimes used interchangeably with economic planning. Though it is a part of development planning, it constitutes a lion's share in total development process. However, from the national economic integration's point of view, separate treatment of central and regional planning seems to be important. It is because, regional planning in Nepal had come as an important penace of integrated national economy.

### *Central Level Planning*

It is the crucial base of national economic integration, which serves as a common umbrella of planned efforts in the country. "Planning is planning of the economy, not within the economy. It is not a mere planning of towns, public works or separate section of the national economy, but of the economy as a whole."<sup>26</sup> In the present context, definition of planning given by Lewis Lordwin seems to be appropriate, which states as "a scheme of economic organisation in which individuals and separate plants, enterprise and industries are treated as coordinate units of one single system for the purpose of utilising available resources to achieve the maximum satisfaction of the people's needs within a given time."<sup>27</sup> Moreover, economic planning according to Dickinson, is "the making of major economic decisions what and how much is to be produced, how, when and where it is to be produced, to whom it is to be allocated, by the concise decision of a determinate authority on the basis of comprehensive survey of the economic system as a whole."<sup>28</sup> Hence, economic planning, in its broadest sense implies to the deliberate control and direction of the economy by a central authority to attain definite targets and objectives in the specified time period.

If we have a look on the indespensability of planned approach in economic development of developing countries, we see that "a large part of the economy comprises the non-monetised sector. The product, factor, money and capital markets are not organised properly. Thus the price system exist in only underdeveloped form and fails to bring about adjustments between aggregate demand and aggregate supply of goods and services. The rationale for planning arises to improve and strengthen the market mechanism."<sup>29</sup> Whenever these very actions has been attained, the economy would integrate to each other.

Least, but not last, "planning therefore, means in a sense no more than better organisation, consistent and far-seeing organisation and comprehensive all sided organisation. Direction, regulations, controls on private activity and increasing the sphere of public activity are all the parts of organisational efforts."<sup>30</sup> Considering the planning from these different angles it is concluded that planning is the base of national economic integration.

### *Regional Planning*

Concept of regional planning has been introduced in the Fourth Plan in Nepal. And, it has explicitly states its objectives of 'integration of the national economy.' From the local centre point of view - "regional planning provides an important link between the micro analysis concerning at the local level and macroeconomic objectives at the national level ..... "<sup>31</sup> To view regional planning from axial angle, "regional planning; by providing horizontal spatial dimension to the vertical dimension of the sectoral programmes, would focus on the complementarity among and between projects."<sup>32</sup> In addition to it, it provides a comprehensive spatial framework within which locational decisions in particular sectors can be made.

Regional planning concerned mainly the regional situation and attempt to cultivate the regional economic forces to interplay in the broader national economic spectrum. In this regards, Fourth Five Year Plan states that "regional planning serves the purpose of translating the national planning objectives and packages of investment into their regional locational settings so that the different regions and sectors can developed accordingly in order to maximise the effects of the national plans investment potential."<sup>33</sup>

To carry out in comprehensive regional development programmes, four growth axes have been envisaged and it has expected that these would "offer the greatest prospects for the integration and coordination of the different development programmes since they present both the east-west and north-south territorial dimensions of the country."<sup>34</sup> Additionally, growth centre which is regarded as 'nuclei of development' is another aspect of regional planning whose spread effect has been expected to begin to assert themselves, as the economy fully integrates itself and commodity and factor market become more efficient. Hence, from these point of view, regional planning serves as a basis of national economic integration.

### Provision of Transport and Communication

Transport and communication is not only the physical infrastructure for the allround development of the country, it is the single most inter-linking factor between consumption and production, demand and supply. "It is only through transport expansion that development projects of all types can flourish together through mutual coordination and integration."<sup>35</sup> Alongwith is "with the availability of cheap, speedy and far-reaching transport facilities, isolated rural subsistence economies can now find

markets and therefore, from larger and more efficient producing units and replace barter with cash economy."<sup>36</sup> The fourth plan has asserted the transport development which contributes to economic development in the following ways:<sup>37</sup>

- enlarging the market and thereby further stimulating economic specialisation,
- helping exploitation of additional resources by making them accessible and thereby enlarging employment and rehabilitation,
- leading to the establishment and for expansion of related industries by making them accessible to raw materials, and
- enhancing the optimum utilisation of resources and making the means of production more dynamic.

Communication acts as a complement to transport, and it is relatively speedy and cheap means to disseminate the ideas and informations and consequently to break up the isolations of the different geographical pockets. Communication alongwith transport facilities the flow of funds, raw materials, products and labour, which is the basic symptom of integrated economy.

#### Maximum Coverage Through Monetary and Financial Institutions

Indeed, the expansion of monetary and financial institutions is the natural corollary of expanding monetisation. So it acts as a derivative base of national economic integration. "An efficient transformation of savings from the hands of surplus spending units to deficit spending units with relatively less risk aversion and capability of using them more productively is regarded as one of the crucial factor of economic development. This transformation takes place largely through the intermediation of financial institutions."<sup>38</sup> The financial system of a country can influence the capital stock for growth purpose by inducing an increase in the rate of capital accumulation by providing increased incentive to save, invest, and work.

Central bank, the leader of monetary and financial institutions, is the developer of financial and development banking institutions and it is the foundation of money and capital market in the economy. Central bank alongwith other development banks as well as financial institutions in developing countries like Nepal, used to play a model entrepreneur's role launching and enhancing the productive employment oriented activities, such as priority sector loan, cottage industry projects of Nepal Rastra Bank etc. These works directly helps to create productive base and consequently enhance the level of production and exchange.



### People's Participation in Economic Development

It would be a mere tautology to note that people's participation is the lubricating oil in economic development. It implies to "mass sharing of benefits of development, mass contribution to development and mass involvement in the decision-making process of development."<sup>39</sup> Dr. P.C. Lohani has propounded six criteria of people's participation in economic development, which are: 1) mass participation in conceptualisation, and identification, 2) in decision-making, 3) in resource mobilisation, 4) in implementation, 5) mass sharing of benefits and 6) mass participation in evaluation and control. Whenever, these criteria come to realise in economy in broad and extensive scale, tempo of growth of national economy would naturally be self-sustaining. Consequently, integrated national economy would be emerged.

### Decentralisation of Planning Practice

As per the geographical structure, economic and cultural differences, the geneous, the needs, aspirations and problems are different in local level. To realise the maximum achievement from these diverse elements, people-based, local level planning is the main motto of current decentralisation planning in the country, which could see in Decentralisation Act, 2039. To make self-sustaining in planning practice to the local panchayats and maintained complimentary and mutually rewarding relationship between local and central level are the basic objectives of current decentralised planning in Nepal. Furthermore, "..... decentralisation is not a matter of organisational elegance, but of vital importance to the achievements of progress"<sup>40</sup> Moreover, decentralisation in general and local level planning in particular acts as politico-economic inter-link in the grassroot level. Hence, decentralised planning practice provides an opportunity to get room for the local geneous, needs, resources, and prospects, which in fact nurture the local units as the basic foundation of self sustaining development. Resultantly active integration, based on mass people and local units of national economy would be viable.

### Integrated Rural Development Programmes

Since Nepalese economy is synonymous to rural and subsistence economy, upliftment of the living standard of the rural poor is most important aspect of development. In this regards, IRD programme is regarded to be the important strategy. "Integrated rural development usually refers to a rural development programme that is integrated by process, by sector and by geography. IRD programme emphasize the link between planning, budgeting, implementation, reporting and evaluation in the project cycle. .... The objectives and contents of the project, sectoral programmes, must be in mutual harmony"<sup>41</sup> The importance of IRD programmes as a development strategy, lies on its objectives which is stated that "the basic objectives of IRD projects are: 1) to raise agricultural productivity, 2) to develop infrastructure viz. roads, irrigation facilities etc., 3) to provide employment, and 4) to extend social facilities viz. education, drinking water health etc. ...."<sup>42</sup> Package of

sectoral components as agriculture, irrigation, livestock, roads, water and soil conservation, education, social health, cottage industry and so on in the different topographic setting is the basic strategy of IRD programmes. Hence IRD programmes in itself is an integrated endeavour, both in conceptually as well as operationally in development.

#### CONCLUSION

Disintegration is an indicator of less developed economy. It not only creates different isolated pockets in the economy, but also widened the gap between words and deed, policy and implementation. Consequently it poses the challenges to development in general and economic development in particular. Therefore, national economic integration justifies the economic viability of the modern nation state. National economic integration is the major component parts of total national integration and of the whole process of nation building.

Creation of coordinated, complimentary, interdependent and responsive economy is the basic thrust of national economic integration. National integration in general is a process, hence it is a continuing process. Horizontal spatial dimension and vertical sectoral dimensions is the main tenets of integration. Production base, productivity are the casual variables of exchange, and its frequency directed by price mechanism is the reflection of integrated economy.

Obviously process of economic integration requires certain bases. Indeed, there is no an exhaustible list of factors which serves as bases, the significant bases are presented and evaluated. To attain the faster economic growth with equity, these very bases have to be strengthened for the creation of broad based, responsive and growth oriented integrated national economy.

#### FOOTNOTES

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6. Philip A.S. Taylor, A New Dictionary of Economics, p. 155.
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## BOOK REVIEW

Piers Blaikie (1985): The Political Economy of Soil Erosion in Developing Countries (London: Longman Group Limited), pp. 1, 157 including bibliography & Index, price not mentioned.

Soil erosion and declining productivity of agricultural land has been one of the basic problems of developing countries. Soil erosion is also an environmental process which goes on with or without human agencies. It may remain unrecognised or unimportant to the people living in the affected areas. As a result of erosion and declining productivity, pastoralists used to move to new pastures or farmers migrate to till new lands. Such practices during the last two centuries have brought a conflict making soil erosion a political-economic issue. Because of the recognition of soil erosion as a problem, it is frequently disentangled from its political-economic context.

The book under review constitutes a new approach covering the entire range of political economic relations of land-users both with each other and with the state. The range of analysis covers more than soil erosion. It takes into account induced innovations by farmers, governments and private sector research and development institutions.

The book is organised within nine chapters. The first two chapters are concerned with identification of the problem and analysis of inter-related issues with soil erosion. The third chapter distinguishes between conservation techniques and conservation policies. A review of conservation policies of both less developed and developed countries is made identifying that techniques are less extended in order to reduce erosion and increase food production. The fourth chapter has focused on the causes of conservation policy failure and a classic model of soil erosion is identified. Conservation activities in the developing countries have been piecemeal improvement. The fifth chapter has suggested a new approach (bottom-up) in which focus is directed to smallest unit of decision making in the use of land and the role of the head of the household. The sixth chapter confines to causes and implications of erosion and presents a heuristic and formal model to explain how and why individual decision makers may cause soil erosion based on a dynamic access model. The seventh chapter discussing political-economic structures, discusses modes of surplus extraction from peasantries and pastoralists in obliging land-users to take out of the soil, pastures and forests. Three related processes of marginalisation, proletarianisation and incorporation are clearly defined and illustrated by extended case studies in India, Nigeria, Nepal, Mexico and Zambia. The problem of commons and its relationship with private property is also examined. Large enterprises using land area such as plantations, logging companies, large-scale ranches, state farms are studied in the eighth chapter. It has been pointed out that there is a strong tendency for conservation to occur only when erosion seriously affects the accumulation possibilities of the most powerful classes. The ninth chapter entitled "What now" is in itself a summary, conclusion and a discussion of future implication.

Any conservation project/policy has three aspects viz; subsistence, conservation and development. The project area people always think in terms of their subsistence. They evaluate what they will get/are getting from the project in terms of subsistence. Those who are implementing the project are usually conservationists. They concentrate primarily on conservation and consider least of subsistence and development. Those who formulate conservation policies are usually development thinkers. Bothering less on conservation and subsistence, they focus on development. A coordination of these three thinkings in a conservation project will no doubt lead the project towards success. In the absence of coordination of these thinkings, soil erosion in Nepal to a greater extent has been due to construction of roads. In conservation policy priority must be given to raising food production. This cannot be achieved by state direction of peasant producers but only by encouraging peasant initiative based on their own experience. The book has pessimistically presented the future of the environment of less developed countries and the poorer people.

The book has used tools of social analysis to consider why most soil conservation programmes in developing countries do not succeed. This is a book which should be read by the students of development economics, geography and resource management as well as policy makers in order to understand problems of conservation and soil erosion.

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