Engines of growth

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An economist argues that developing countries as a group could help reshape the rules that govern the global economy

Deepak Nayyar is a rare breed among economists. At a time when economists migrate to ‘fashionable’ fields like monetary economics, trade theories and derivatives, he retains an abiding interest in development economics with special reference to the growth and welfare concerns of developing countries.

This collection of essays written from 2010 to 2016 is varying in scope and content; the chapters “explore many intersections: macroeconomics and development economics, theory and policy, national economies and the global context or international economics and development.” The book is divided into three parts, arranged thematically, with a common thread running through—employment.

For Nayyar, employment is the key which can provide a solution to the twin problems afflicting the global economy in the post-crisis era: contraction of growth and increasing inequality. As he argues, “Growth can create jobs, and jobs can drive growth reinforcing each other. More employment and better jobs would also mitigate problems arising from rising inequality.” As he repeatedly laments, latter day addiction to price stability as the way to growth has upset the balance and makes the process unsustainable.

Moreover, there is undue emphasis on the supply side to the neglect of the demand side, an asymmetry which skews the developmental process and creates inequality. These imbalances can be corrected only if there is emphasis on employment and employment creation. Indeed, other advantages will also follow from balanced growth such as higher standards of living, welfare and social justice. His views display an inter-disciplinary fusion of politics, economics, history and sociology across the chapters, especially in Parts I and III.

Dim prospects

The introductory chapter sets forth the prevailing post-crisis economic stasis and draws lessons from it. Prospects of recovery in the world economy are dim. Nayyar argues, “Recovery is sustainable only if it is based on a rebalancing of the world economy that extends beyond current account deficits and surpluses to income-expenditure gaps and income distribution within countries.” He feels that developing countries had coped with the crisis better than industrialised countries and transition economies. In particular, China, India and Brazil weathered the storm due to policy responses which were spurred by domestic demand, based and facilitated by the fiscal space available to them.

As for the future, he advocates the imperative need for international collective action. He is optimistic that even in the current world of unequal partners, “developing countries as a group could exercise influence to reshape the rules and institutions that govern the global economy.”

His analysis of Millennium Development Goals (MDG), done in 2013, moves away from canonical wisdom. After 15 years and much publicity later, MDGs, as a global programme, did not meet with success. The World Bank, in its MDG Report of 2015, admitted that the “achievement was uneven and there were shortfalls.” According to Nayyar, the MDG strategy was flawed as it placed more reliance on external resources than on domestic. It ignored the role of public intervention and the need to maintain a proper balance between the state and the market. In the international context, the focus was too narrow. Donor-centric world view was its undoing. The least developed countries were also lulled into the faith that growth would “trickle down” and reach the poor.

Reclamation takes time

Part II of the book traverses a gamut of issues related to the latter day rise and growth of developing countries, their interactions with the West (industrialised countries) and the resultant challenges. Rising South reduces the hegemony
of the west though they are reluctant to cede. However, it is a long process and may take many more years for the South to capture the space vacated by them. The challenge to them, according to Nayyar, “lies within.” They have to pursue a development strategy encompassing “poverty eradication, employment creation and inclusive growth.” In this process, political democracy will provide the much-needed checks and balances.

There is an interesting and incisive analysis of the rise of BRICS. Excluding Russia, he deals with China, India, Brazil and South Africa (CIBS). He takes the view that CIBS has a “considerable potential for articulating a collective voice in the world of multilateralism.” However, coordination and cooperation among them has not surfaced as the relationship among them is marked by rivalry, economic or political, and less by unity. He does not share the view that they could become engines of growth for the world economy. Significantly, even the BRICS lost its shine with the slowing down of China. And those economists who coined the acronym have written its epitaph.

The chapter on Emerging Asian Giants in Africa is highly perceptive. He feels that India and China can play a positive role by providing support for African growth. This can reduce the dominance of the west and their influence. They should offer local leadership help to evolve their own strategies for growth. If such progressive policies are not pursued and the economic engagement of Asian giants is only through “trade and investment, it may perpetuate traditional (read, colonial) patterns of specialisation which inhibit rather than foster industrialisation in African countries.”

**Creative destruction**

Nayyar weaves several issues, conflicts, constraints and compulsions that lie behind the making of economic policies to promote growth which is balanced, sustainable and ensures the welfare of the people. His approach is heterodox and shies away from accepted wisdom. Unfortunately, there are ghosts in the corridor spoiling Nayyar’s game. Recent trends in manufacturing, especially the digitisation of many processes, the advent of robotics and other technologies play havoc with the role of labour. Though described as “creative destruction”, they result in job destruction. Jobless growth is the new normal. These trends question the traditional role of labour as a factor of production and it can be argued that reliance on labour to promote growth is weakened.

However, sustainability and inequality issues remain and, rather, get exacerbated. If production increases due to robotics, there should be demand to sustain it. An army of jobless people living on doles cannot do that. Robotics creates more inequality by shifting more of national income to capital away from wages.

These developments have cropped up more recently. The issues have been raised not to fault, but to draw attention to the dynamics of factorial change and the need to include them. In fact, they call for greater need to promote income through other means and take radical steps to reduce inequality. This book has set the tone for a larger debate on development economics.