

Necessary Lessons

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LIBERALIZATION AND DEVELOPMENT: COLLECTED ESSAYS; TRADE AND GLOBALIZATION: COLLECTED ESSAYS

By Deepak Nayyar

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These two companion volumes put together thirty essays of, in Joseph Stiglitz's words, 'one of India's foremost economists' who has straddled the worlds of both academia and policy making. Written over a long time span stretching from 1975 to 2008, the essays, often individually and certainly collectively, cover theory, history, empirical analysis, and policy questions. Most of them have appeared earlier in different academic journals or books and therefore are addressed to economists. Yet they are thankfully not so heavily loaded with technicalities as to make them inaccessible to the non-specialist reader.

Such a collection of previously published essays could be considered worthwhile for a number of reasons. One is of course the convenience of having all of them at one place for handy reference. Alternatively, the collection can be seen as a means of gaining a sense of a leading economic thinker's 'intellectual journey over the past three decades'. The essays are however not presented in chronological order of their earlier publication but have been grouped in thematic clusters. Moreover, each successive decade beginning with the 1970s is represented in the collection by an ever larger number of essays with the result that half the essays were written after 2000 and only three in the seventies. Even the ones written earlier, including those that discuss long forgotten subjects like trade, involving socialist countries, are by no means of mere historical interest. The value of the collection lies actually in the fact that the essays are grounded in an underlying perspective not fully elaborated in any single essay but whose entirety emerges more clearly through all of them collectively. The whole indeed is more than a sum of its parts, and its value is only enhanced by the context in which it appears.

The crisis afflicting the world economy today, large in magnitude and universal in character, has at least undermined though by no means undone the unprecedented hegemony of the economic philosophy that has accompanied globalization, namely neo-liberalism. There is a perceptible change in the intellectual climate and ideas that till not very long ago were dismissed offhand can today at least hope to get a reasonable hearing. Coming at such a time, this collection of essays by a self-confessed heterodox economist should contribute to the process of chipping away at the sway of the dominant but flawed orthodoxy and the quest for newer and different ways of understanding the world and finding a way forward.

The timing of the appearance of the companion volumes, almost coinciding with the collapse of Lehmann Brothers, may not be by design. It is not even a collection where one would find any systematic analysis of the financial crisis, its origins, and its implications. The author's principal concern is instead the unfinished and even daunting challenge of development in the Third World, and each and every essay touches upon this and never peripherally. The analysis of the problem of development is however situated in the background of a world of increasing economic integration between countries. It is noted that globalization is not new, but that there are specificities of contemporary globalization in relation to that of the past, particularly the preponderance of short-term speculative flows in cross-border capital movements and the absence of comparable labour flows, are however taken into account. The implications for development of the processes making for and resulting from this increased integration, in retrospect and in prospect, constitute the broad subject matter uniting these

essays. While the Indian experience with development and globalization does get special attention in many of the essays for obvious reasons, the issues raised in the two volumes are not about India alone.

The Washington Consensus, Globalization and Development Experience

According to Professor Nayyar, globalization has come to be used in two senses, one descriptive and the other prescriptive. The actual historical process has of course been facilitated by the ascendancy of the ideology of globalization and the implementation in developing countries of the neo-liberal orthodoxy or the Washington Consensus. The decisive displacement by the Washington Consensus of the Development Consensus of the 1950s as the reigning view on development had however more to do with the historical conjuncture of the 1980s and 1990s than with its inherent superiority and soundness. This reign too according to him started coming undone following the East Asian crisis of the late 1990s, though no new consensus has as yet replaced it.

That Nayyar was an early sceptic regarding the claims about the development gains that unbridled integration with the world economy would bring to developing countries are reflected in some of the essays written in the 1970s and early 1980s. These essays highlighted the limited role of transnational corporations in promoting manufactured exports from developing countries, and made the case that the prospects of developing countries benefiting from the international relocation of production were limited and that the East Asian experience could not be generalized. The quarter century since then can be said to have generally borne out these predictions, though it must be said that the subsequent emergence of China as an exporter of manufactured products to the world does not appear to have been anticipated. Even Nayyar's 1978 contribution to the debate on industrial stagnation in India since the mid-1960s, which is one of the essays reproduced, serves to demarcate his approach towards understanding economic reality from that of the Washington Consensus orthodoxy. That essay emphasizes the role of income distribution and the demand factor, both of which tend to be ignored by the latter.

The heterodox perspective however emerges in sharpest relief through the essays of a later vintage where can be found a more explicit appraisal of the Washington Consensus and its implications. What is perhaps one of the best features of the collection is the pretty comprehensive questioning of this orthodoxy that emerges, whose essence may be described as follows: the theory underlying the Washington Consensus is very distant from the real world; in the real world, the theory has also been used selectively and conveniently in shaping the rules of the game; real world results are therefore very different from what is predicted by the theory, but the ideological predilections of its adherents make them reluctant and resistant to revising their theory in the light of evidence.

In a number of essays, the theoretical underpinnings of Washington orthodoxy are dissected and its myriad weaknesses exposed from so many different angles that it is hard to even list them out. Professor Nayyar points out the unrealistic assumptions on which orthodox theory is based and how 'the simplicity of theory is no match for the complexity of reality'. The limitations of its supply-side and comparative static micro-theoretic orientation are sharply brought out. The narrow focus of the orthodox trade theory on which the free trade doctrine is based—on trade in goods to the exclusion of trade in services, and the cross-border movement of goods to the exclusion of factor movements, particularly labour—are highlighted. Nayyar also points out that to the extent that a macroeconomic dimension exists in the orthodox perspective on development strategy, it is narrow in conception, emphasizing only price stabilization, and fails to take into account the structural specificities of developing countries. The consequence of these is 'deficit-fetishism' and short-termism, a one-size fits all approach, more generally a tendency to reduce ends to means, and the privileging of the objectives of growth and allocative efficiency

over development understood in its broader sense as delivering welfare to everyone.

Nayyar does not however only offer criticisms of orthodoxy but also presents alternative theoretical conceptualizations. He does not only point towards the gaps in the orthodox theoretical perspective. He also tries to fill them. Particularly of note are the attempts to conceptualize the macroeconomics of developing countries and the analysis of trade in services and labour migration. Additionally, Nayyar emphasizes the importance of taking into account something that is missing both in the theory of orthodoxy as well as in the agenda for establishing rules of the game in multilateral fora—namely the fact that the world is characterized by inequalities both between and within countries.

Apart from repeatedly pointing out that in an unequal world, uniform rules can and do have an asymmetrical impact and tend to be also asymmetrically applied, Nayyar also highlights how even these rules are made asymmetrical, in the interests of developed countries and TNCs, by the selective recourse to theory. For instance, the case is made for the free movement of goods and capital but technology and labour movements are sought to be simultaneously restricted, a combination for which there exists no theoretical justification. Similarly, while national treatment is sought for international firms, the same principle is not extended to migrant labour. Labour standards are sought to be imposed on developing countries but these concerns are not extended to developing country migrant workers in developed countries. While free trade in services is sought, liberalization of restrictions on the movement of labour which are often essential for the cross border movement of labour-intensive services where developing countries would have a comparative advantage, are kept off the agenda.

Nayyar joins many others in concluding that globalization has failed to live up to the claims orthodoxy had made about it. Neither has it managed to deliver higher growth in the global economy nor has it proved itself adequate to meet the development challenge in the Third World. Heightened inequalities rather than convergence, volatility rather than stability, widespread livelihood insecurity and exclusion rather than employment generation and the guaranteed provision of basic needs—these are highlighted by Nayyar as the results of the misconception that globalization would spontaneously deliver development.

In arriving at this conclusion, Nayyar does not ignore the fact that the two largest developing economies, India and China, appear to have outperformed the rest of the world. Apart from pointing out that all has not been well in the development trajectories of these two countries, in the Indian case for instance the increasing divergence between India and Bharat, he does try to explain their relatively superior performance in terms of their continuities and learning more from their experience. Nayyar asserts that the more fundamental turning points in the case of both countries were around 1950, and the subsequent development under globalization has taken place on the foundations built earlier. However, while there may be no disagreement with the broad view that the capabilities inherited from the past are relevant to understanding their recent record, it is doubtful if these alone can form the basis for a complete explanation of Chinese and Indian economic performance, particularly in view of the major differences in their respective trajectories.

The Interaction of Politics and Economics

Many of the essays in these volumes reflect the fact that unlike most mainstream economists, Deepak Nayyar is not shy of crossing narrow disciplinary boundaries and bringing politics explicitly into the picture. In discussing the history of the free trade doctrine for instance, he explores both the question of politics within the doctrine and the politics behind the advocacy or challenge to it at different historical junctures. According to him, the doctrine as originally conceived by the classical economists was firmly rooted in politics. Subsequent theorizing in the neoclassical tradition however separated the politics

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from the economics and it is in that abstract form that it became the dominant orthodoxy in the discipline. This tradition however did bring politics back in, only however to successfully meet the challenge posed by new trade theories by invoking government failure. In the real world however, according to Nayyar, the free trade doctrine has always been a flexible doctrine. Its advocates have always been powerful nations, who have invoked it as and when it suited their national interests. Equally, national interests—sometimes of powerful countries, of late industrializers, and of newly independent developing countries—have also been behind the frequent departures from free trade.

The role of politics in the making and working of the globalization process also finds extensive place in Deepak Nayyar's analysis. The dominant position of the United States, the changed world context following the dramatic changes in Eastern Europe, and the role of the iniquities of the global order in shaping the international rules of the game, are not incidental but central elements in Nayyar's understanding of the history of globalization. He also brings into discussion the inherently undemocratic nature of global institutions like the IMF, the World Bank and the UN, which makes the global governance structure biased against developing countries. Consequently, there is explicit appreciation of the fact that achieving development does involve an inherently political struggle at the international level in which the main actors are national states.

In a few essays Nayyar also presents his understanding of the interaction between markets and political democracy. According to him, while the two are often presented as the twin guarantors of freedom in the economic and political domains that go together, the relationship between the two is more complex. Markets have an exclusionist character and this means a tension with political democracy which has a more inclusive nature. At the same time, exclusion in the two spheres can and do mutually reinforce each other. This broad framework is also used by Nayyar in a couple of essays in discussing the interaction of politics and economics in post-Independence India, and also after liberalization. Nayyar's political economy is of neither the neo-classical nor the classical Marxist variety, but perhaps has more in common with the latter. He goes so far as to characterize the state of Independent India as an alliance of the industrial capitalist class, the land-owning class, and the educated elite, and discusses the implications of the post-Independence rise of the rich peasantry. But for reasons that are not quite fully explained, class dynamics is not so foregrounded in the analysis of the transition to and the aftermath of liberalization. Had that not been the case, one might perhaps have had a deeper understanding of the important observation that Nayyar makes in relation to context of India under liberalization: that the current phase is different from the past in that the economy and the polity are pulling in opposite directions, where the need for conflict resolution has become greater but more difficult than before, and yet the effort at seduction is that much less.

Governing Globalization and the Future of Development

The analysis of the experience of development under globalization by Nayyar leads to the very forthright conclusion that development strategy in the 21st century needs to be cast afresh if its goals are to be achieved. The degree of openness to the world economy that is

desirable, and relative roles that should be accorded to the state and the market, remain crucial issues. Neither the old Development Consensus nor the Washington Consensus can however form the basis for getting these balances right.

Pointing out that one instance of selective use of theory is the emphasis in neo-liberal orthodoxy on government failure to the complete exclusion of market failure, Nayyar argues that the state versus market debate is a false one because their role in development is complementary. The state's role has functional (correcting for market failure), institutional (governing the market), and strategic (guiding the market to attain long-term objectives of development and developing initial conditions) dimensions. The need for these does not disappear under globalization but rather become even more critical. Nayyar however accepts two propositions as implicit and given. First that globalization is a fact of life and second, that globalization has seriously circumscribed the autonomy of the nation state. But he contends that developing countries do have a choice, between passive integration into the world economy and a strategic one. The latter is his preferred alternative and he seems to suggest that it and a more successful development is achievable by taking advantage of the degrees of freedom that remain with nation states.

Under globalization, the state's role in the national context, according to Nayyar, has a wide domain. It includes macro-management, creating social safety nets, bargaining with international capital and facilitating equitable development. But equally crucial in the context of globalization is the state's role at the international level. This involves working towards reducing the asymmetries and iniquities of the rules of the game and building strategic alliances amongst developing countries for this purpose. Moreover, states have to work towards reforming the existing institutions of global governance on more democratic lines and creating new institutions, in particular to regulate international financial markets. This analysis suggests that in fact reform at the international level is also critical for ensuring the flexibility or policy space developing countries need.

There is however a dialectics in all of this. Globalization as it has actually unfolded, the rules of the game that have come to be created, the nature of the integration of developing economies into the globalization process, the degree to which the autonomy of their states has survived or been curbed in the making of and as a result of that process, and the economic and social consequences of globalization—these have all been mutually interrelated and mutually reinforcing in nature. If globalization is a fact of life should not then everything that has gone along with it also be facts of life? If all developing countries were to redefine the nature of their integration with the world economy and succeed in changing the rules of the game, would we have the globalization that we have actually witnessed? Most importantly, can any such redefining and reordering begin from the premise that what needs to be changed is a fact of life? Or is it that the willingness of individual developing countries to disengage from globalization, which does not have to mean autarky, is the necessary condition for achieving any change in the unequal character of globalization? These are some nagging questions that remain not only despite Professor Nayyar's perceptive analysis, but also resulting from it.

Perhaps a more systematic presentation of the heterodox perspective represented by Nayyar than is possible through a collection of independent essays would be necessary to address these questions and those raised earlier. Till such a comprehensive presentation is forthcoming, this collection must serve as an imperfect substitute. It is however a tribute to its thought-provoking quality that induces a demand for something more.

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