

**D**eepak Nayyar's two volumes of collected essays are arguably the most important contribution to the study of economics in India that any single economist has ever made. Although more than a quarter of the essays are devoted to the study of India's economic development, India is not the main focus of these essays. Instead their single, unrelenting focus is the applicability of a science that has been developed in the industrialised countries to the developing world. Nayyar examines what we have learned in three broad areas of economic theory, macro-economics, trade and economic development, to the actual conditions in which developing countries have to plan for a better future. India has been one of the guinea pigs on which liberal economists have tested their theories for more than half a century. So, inevitably, Nayyar has a great deal to say on Indian economic policies. But in the end this is a critique not of the Indian economy but of economics itself—at least of those parts of the subject that have played a role in the shaping of policy in the developing world.

To say that Nayyar has been dissatisfied with the way in which the science has been taught and applied would be something of an understatement. Two major conclusions have shaped his thinking during his entire life as a professional economist and scholar. The first is that despite what liberal economists claim, economics is not a pure science, akin to the natural sciences and divorced from politics. On the contrary, this claim was developed in the industrialised countries to discourage challenges to the dominance of the propertied classes and richer nations. The second is that—again in contrast to the natural sciences—even the most elegant constructs of economic theory do not have universal applicability and cannot be applied to developing countries without "significant modification".

These reservations are not new, for they have been voiced by Marxist economists for generations. But Nayyar did not begin with a Marxist framework of analysis. His reservations are born out of a lifetime's experience of first trying to apply and then seeing others try to apply, conventional economic wisdom to the analysis of developing economies. "I have always found it difficult to accept conventional wisdom from mainstream economists," Nayyar confesses in his Introduction to *Trade and Globalisation*. He goes on, "I started with orthodox trade theory. The charm of its elegance was soon transformed into frustration with its narrowness".

His second volume, *Liberalisation and Development*, begins in a very similar vein by mirroring his disenchantment with the fumbling attempts to apply macroeconomic theories developed in industrialised countries to the developing world. In an illuminating discussion of the roots of the doctrine of free trade—perhaps the single most powerful idea in the economics of the second half of the 20th century, Nayyar points out that this most elegant of theoretical constructs actually arose out of a strong desire to challenge the political dominance of the mercantilist ideology in Britain in the 18th century. Mercantilism believed in maximising exports and minimising imports to accumulate gold, because gold was the source of political and military power.

# How dogma is built

## Trade and Globalisation

By Deepak Nayyar

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## Liberalisation and Development

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The repeal of the corn laws prohibiting the import of grain was promoted as a way of shifting capital away from the landed gentry into the hands of industry and, significantly (although Nayyar does not mention it here), as a way of keeping German investment going into wheat and away from industry. Nayyar describes the covert separation of economics from politics with a rare elegance: "In retrospect it would seem that economics, so divorced from politics, slowly but surely acquired a life of its own. The selectivity in the choice of problems and the abstraction in the choice of assumptions made this difficult task much simpler."

Nayyar goes on to describe how the free trade argument was married to

interest. These contain possibly the most succinct and ideologically untainted description of economic globalisation I have read so far. Nayyar easily fords the shoals of the controversy that surround the nature of globalisation, pointing out both the similarities of the period after 1970 to the period between 1870 and 1914, and the differences. He is one of the relatively few economists who have pointed out that the globalisation of the 1970s onwards owes its speed and ferocity not only to breakthroughs in transport and communication technology but also to the choking of labour flows—a factor that didn't exist in the 19th century.

Nayyar also does not shy away from a detailed description of the way in

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another proposition: the factor price equalisation theorem, to create a powerful prescriptive tool for forcing free trade on others. This reached its zenith with the advent of globalisation, when the fierce drive of international capital to break down all barriers to trade found its expression in the Uruguay round trade negotiations and in the replacement of GATT (in which trade liberalisation was based upon consensus) with the WTO, in which it is backed by the implicit threat of cross-retaliation.

Nayyar's history of the free trade doctrine is especially fascinating because of his account of the challenges that arose periodically to the free trade doctrine and of how these were eventually beaten off by the classical economists. In the end, free trade emerged bloodied but unbowed.

I will not pretend to having read all 30 of Nayyar's essays. They cover so wide a field that readers are bound to go first to those which impinge directly upon their interests and pursuits. For me, Nayyar's four chapters on globalisation were of the greatest

which globalisation has widened internal and international income gaps and, in particular, led to the economic exclusion of a large part of the world from the fruits of rising productivity, thereby deepening their social and economic crises. The final chapter "Governing Globalisation" draws heavily on his book with the same title and offers a way forward for developing a more equitable international society.

If there is a small lacuna in these chapters, it is that they hew to the economic analysis of globalisation, when globalisation is also a political phenomenon that is reshaping the world order, at present not for the better. Nayyar is no doubt aware of this but a discussion on the political aspects of globalisation would have taken him far outside the parameters of this collection of writings.

Nayyar's essays are not easy reading. But many of them are essential reading for policy makers—and all of them should be part of a brain-washing course in economic thought in universities across the developing world. ■

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