



Against the current

Sudipto Mundle August 07, 2009 Last Updated at 00:44 IST

The reflections of a mandarin swimming against the current. That's how I would describe this volume. Nayar is a quintessential scholar-bureaucrat who combines long years of scholarship with his experience as economic manager and policy adviser at a very critical juncture of India's recent economic history. He has also been a consistent critic of India's economic liberalisation policy after 1991. The volume is a collection of essays published over several years. It has been organised into four parts: Theory, Development, Industrialisation, and Liberalisation. It would be possible to walk the prospective reader through a guided tour of each of these parts. However, it is more interesting to introduce the book through four key ideas that run through the volume: the inadequacy of orthodox economic theory, the long-term costs of economic liberalisation, the tension between market economies and political democracy, and the distinction between growth and development.

One consistent theme is the inadequacy of mainstream economic theories constructed in advanced market economies for studying developing countries. Since the conditions and economic structures in advanced market economies are quite different from those in developing countries, Nayar argues that mainstream economic models designed to analyse the former cannot be effectively used for studying the latter. This critique applies to not just neo-classical economics, monetarism and their derivatives but also Keynesian economics. For instance, the fundamental assumption of Keynesian theory is that an economy is constrained by the deficiency of aggregate demand. In contrast, in developing countries the binding constraint is often on the supply side, whether the supply of wage goods like food or the stock of capital. Though no alternative theory is presented, readers are guided to alternative constructs such as structural macroeconomics, which derives from the earlier work of Kalecki and Hicks on fix-price/flex-price models.

A second theme is a critique of the 'Washington Consensus' on economic liberalisation: IMF/World Bank-driven policies of stabilisation and structural adjustment. Stabilisation policies focus on fiscal compression and exchange rate liberalisation to reduce net domestic absorption when there is a balance of payments crisis. Nayar argues that such compression of domestic demand invariably has the sharpest effect on investment and social spending. These in turn have severe adverse effects on the long-term growth prospects of the economy and deprivation, a heavy price for developing countries. Structural adjustment policies which abolish government intervention in markets, regardless of whether market institutions are adequately developed and functioning efficiently, have similar long-term effects.

Another theme, perhaps the most original in this volume, is the tension between free markets and political democracy, the two pillars of liberal philosophy. Free markets are iniquitous. Poor citizens in developing countries are excluded from the market because they lack the capacity, purchasing power or assets to vote in the market system. This is at odds with political democracy which is founded on the inclusive and egalitarian principle of 'one person one vote', regardless of how rich or poor that person may be. However, Nayar recognises that political democracy can also exclude those who have not been politically mobilised and lack 'voice'.

A fourth theme, specific to India, is that the country has done very well in terms of growth but failed quite miserably when it comes to development. India's growth record in the post-Independence period is quite impressive compared to its own historical standards or against average global benchmarks. However, in terms of development, providing a decent standard of living, or even freedom from hunger and malnutrition, India has so far failed hundreds of millions of its citizens.

The exposition of these heterodox perspectives on development and liberalisation makes this a particularly interesting volume. Unfortunately, the volume is not self-contained, possibly because of length constraints. After being introduced to an important idea, readers are often directed to look up another reference for an elaboration of the idea. For instance, Nayyar writes: “Indeed, markets are invariably imperfect and governments are fallible... It is important to introduce correctives against both market failure and government failure”(p.82). Subsequently there is much discussion of market failure, but not much on government failure or how to deal with it. For that, readers are directed to look up *The Intelligent Person’s Guide To Liberalization* by Bhaduri and Nayyar (1996).

LIBERALIZATION AND DEVELOPMENT

Deepak Nayyar

OUP

422 pages, Rs 795