
Underconsumption as an Economic Fault

THOMAS TIMBERG

Deepak Nayyar's book is composed of articles he has written since 2010, including two in the *Economic & Political Weekly* (EPW). As a distinguished social thinker and social scientist, he has, as usual, a lot of interesting things to say on a broad range of topics, and the acknowledgements of discussions he held on several of them with figures as disparate as Romila Thapar and Martin Wolf, to say nothing of his research assistants, demonstrate the wide variety of discussions he has held. But, as his very illuminating introduction shows, there is a central thrust and certain overarching themes in the book and that is what makes it valuable and permits us to have our own discussion with it. The book is concerned with both the developed and developing economies and their interaction. In fact, one of its merits is that it does a good deal of comparative analysis using a long-term historical perspective of both developed and developing economies.

Globalisation over the period since 2000 has considerably increased the weight of the BRICS (Brazil, Russia, India, China and South Africa) in particular in the world economy and even their per capita incomes—the Great Convergence. This convergence occurred despite much unfairness to the developing countries in the international trade and finance system, which the developing countries themselves should use their new weight to combine to remedy. Nayyar presents some discussion of how this might occur. Some commentators like Steven Radelitz (2015) see this convergence as an entirely positive phenomenon. However, as Nayyar points out, the resulting growth in income has not resulted in growth in employment and is connected with growing domestic inequality both between persons and regions within the countries concerned.

BOOK REVIEWS

Employment, Growth and Development: Essays on a Changing World Economy by

Deepak Nayyar, *Oxon and New York: Routledge, 2017; pp xiv + 260, ₹895.*

Without increasing equality, Nayyar contends, the developing countries' growth, particularly in the BRICS, will not be sustainable. This is both from the political angle, but also as will be seen below, from a general macroeconomic point of view.

Heterodoxy and Underconsumption

So far, this is non-controversial matter, but Nayyar prides himself on his heterodoxy and, not surprisingly, the book also contains some more controversial themes. The shortfalls in new employment creation, particularly the lack of good formal sector jobs, are central to his analysis of what is wrong and unsustainable in present economic trends. Employment is important both from the income side in providing the incomes that would make society more equal, and on the demand side in providing the demand needed to sustain its development. Thus, Nayyar's heterodoxy includes support for underconsumption as a major economic fault.

The need to increase formal sector employment in order to secure greater equity and more economic production seems part of the orthodox consensus. Certainly, it is echoed by the World Bank and the present Government of India. There are a variety of less orthodox voices who think that the informal sector and small-scale rural development is an important complement or even competitor to formal sector employment as Muhammed Yunus also argues.

Underconsumptionism is more unorthodox. The following summarises the concern with underconsumption

In underconsumption theory in economics, recessions and stagnation arise due to inadequate consumer demand relatively to the amount produced. The theory formed the basis for the development of Keynesian economics and the theory of aggregate demand after the 1930s. ("Underconsumption" nd)

The exact truth of this statement might be contested by some, but substantially it is correct.

Though they would vehemently deny it, many mainstream academic economists adhere to a version of Say's Law that production creates its own demand, or at least it would if those economists could properly order markets. At least in the United States (us), the underconsumption theory is often connected with the work of Leon Keyserling, Chair of President Harry S Truman's Council of Economic Advisers, who devoted the remainder of his life to propagating the theory through his organisation, the Committee for Economic Progress. Both Keyserling and Nayyar proposed a more relaxed monetary and fiscal policy as one of their remedies to underconsumption and underemployment. In the us, the concern with underconsumption is reflected in the Humphrey Hawkins Bill, which is supposed to enshrine commitment to full employment in policy and has been flagrantly ignored by the monetary and fiscal authorities. In fact, Nayyar internationalises underconsumptionism. If you will, he argues the very reverse of Lenin/Hobson Imperialism. The structure of world capitalism will not collapse if world capitalism can ensure rising consumption to meet its

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rising productive capacities. Not only do individual countries suffer from under-consumption, so does the world as a whole. Thus it is essential to increase consumption through increasing equality in all countries.

Nayyar also argues that the post-2008 Great Recession demonstrates the fragility of the present capitalist order. The Great Convergence may have transitioned into the Great Recession, but how great a crisis it is for capitalism as a whole may be more controversial, though Nayyar certainly feels it is. In any case, he argues that the recession has eroded support for market fundamentalism and shrinking the state apparatus at all costs, and that is certainly correct. Nayyar writes that despite initial successful coping by many developing countries, they are ultimately dependent on the dynamism of the leading developed countries. To quote him, “recovery in the

world economy, in the medium term, depends ... on the pace and the nature of recovery in the industrialised world, particularly the United States” (p 18). This is one of the reasons that the essays in this book pay extensive attention to the policy and political economy of the us and industrialised countries in general as well as developing countries. In fact, the volume contains an essay entitled, “The Rest and the West in the World Economy: The Next Transformation?” which appeared in *Challenge* in 2014, neatly dealing with much of the same issues as the Fareed Zakaria (2016) pieces quoted here. This essay makes the point that over the longer haul the relative position of the West will decline. The next chapter is, importantly, “China, India, Brazil and South Africa in the World Economy: Engines of Growth” (pp 122–58). This essay appeared in a volume produced by the Oxford University

Press in 2014 (Santos-Paulino et al). But, Nayyar conditions this growth on a more equitable income pattern and human resource development. Then, he says, “the outcome ... is likely to be a world in which dominance [of the developed countries] might not be so striking” (p 121).

The point is similar to the one Fareed Zakaria in his 2008 book, *The Post-American World*, makes: as much as the us continues to grow at levels above those of Europe, the rest of the world is catching up, producing not so much the decline of the West as the rise of the rest. But, he goes on to assure Americans that, as with Britain and many other former leading countries, there is, if the process is properly managed, a perfectly pleasant future for it in a world with well-being for all. Nayyar points in the same direction.

Thus, Nayyar doubts that the BRICS countries are yet able to be the effective

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impulse for overall international growth. Perhaps reflecting a career that has involved shuttling between North America and India, he considers the policy needs of both kinds of countries, and poses the integral connection of developments in both.

A more difficult objection to the central thrust of the book is that while more relaxed monetary and fiscal policy, a more extensive reliance on government and regulation, and the other measures Nayyar proposes, may move us in the directions of a more equal, employment-based, and sustainable economic order, whether they will be sufficient or not is another question in the face of the strong world and technological trends observed. The very fact that the inequality is so widespread, suggests that economic policy measures alone may not be sufficient. In general, economists are optimistic about the potential of policy in the first place to be implemented and then to have its desired effect. It sometimes does, and governments do not have an option of having no policy. In

fact, if governments do nothing, that is a policy as well.

Embedded Exclusion

Besides those connected with Nayyar's central thrust, the book also contains essays on subjects like affirmative action to alleviate discrimination and the relationship between democracy and economic growth. The latter is treated in the final essay on "Democracy and Discrimination" which appeared in *EPW* in 2011 (pp 233–52). He surveys the decades of experience with affirmative action in India, the us, and South Africa and determines that in no case has exclusion resulting from discrimination been abolished. Speaking of India (he says comparable things about the other countries), he observes,

More than 50 years after affirmative action was introduced, an overwhelmingly large proportion of Dalits and Tribals remain excluded from higher education and from government employment because they have little, if any, access to social opportunities, most of which come from school education.

This failure of affirmative action is partially because discrimination, like the poverty in which it typically results, is multidimensional. Education is critical, but effective education is required and societies clearly have difficulties delivering it, as witnessed in the 2017 *World Development Report* by the World Bank. A final interesting statement is:

We need to think of a world beyond affirmative action. Whatever we do must unite rather than divide people in the quest for social justice ... in societies where opportunities are scarce, there is bound to be resistance. It would be easier if we create opportunities. School education and higher education provide the obvious examples. (p 249)

A relatively minor point in this excellent essay discussing discrimination and affirmative action in the us, India, and South Africa is that the 15th amendment giving freed slaves the vote was ratified in 1870, not the 1960s when new laws and government enforcement finally made it effective. The American story is one of bold initiatives in the immediate aftermath of the Civil War,

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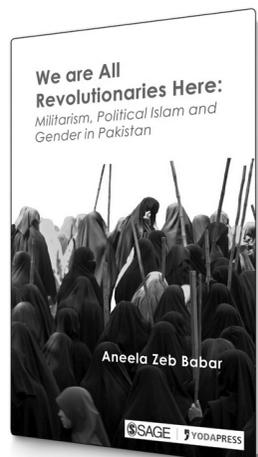


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which were then pushed back over the next three decades, leading to the 1901–29 period, which Rayford Logan, an iconic African American historian, described as the “nadir.” But, that is also an illustration of the resistance involved in “embedded exclusion” as Nayyar calls it in all three cases.

This statement is important because it echoes Nayyar’s concern with the welfare of the poor, both in rich and poor societies, in the book and more generally his search for means to create win–win situations. It suggests an approach which tries to market solutions to a broad base by projecting solutions that will benefit a large portion of the world.

In addition to considering the content of the book, some readers will object to some features of its editing and presentation. The various essays in

the books were written at various points of time in the face of a rapidly moving economic reality, and in several cases might have been affected by newer data. The chapter on Millennium Development Goals (MDGs), for example, which originally appeared in 2013 has a particularly dated tone to it, given the adoption of the Sustainable Development Goals (SDGs) in their place, but may have been valuable as a contribution to the debate which shaped the latter. While it may have been more honest to leave the various essays in their original form, they are still subject to criticism in that more recent available data is not used. In a couple of cases, language has been duplicated to make similar arguments which some might feel is unnecessary. Several of the pieces obviously have a parallel structure, such as “China, India, Brazil and South Africa in the World

Economy” and “The Emerging Asian Giants and Economic Development in Africa” which originally appeared in another Oxford University Press volume. But, these are all legitimate editorial choices on Nayyar’s part.

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