
Economists and Public Policy in a Globalised World

SUNIL MANI

Economic Theory and Policy Amidst Global Discontent is a collection of essays in honour of Deepak Nayyar, one of India's leading economists, who, over his working career, has distinguished himself as a great teacher of economics in a wide range of leading institutions in the country and abroad, as a policymaker, occupying such important positions as the Chief Economic Adviser to the Government of India, and as an academic administrator in his role as Vice Chancellor of the University of Delhi. Reflecting on Nayyar's interest and expertise on theory and practice, the 21 essays in the book straddle a wide range of topics, from the theoretical to practical and policy-oriented papers. Further, the chapters are written by well-known economists from within the country and abroad. In this way, the book offers something for both, the more theoretically inclined, as well as more empirically-oriented readers.

A Fitting Festschrift

The book is structured into four parts: Part 1 consists of two chapters sketching the biography and contributions of Nayyar. Part 2 deals with the evolving dimensions of globalisation; Part 3 is the most theoretical part of the book, comprising seven essays on economic theory and public policy. Part 4 is divided into two subparts: the first has four essays drawing lessons from the development experience of emerging economies, while the second consists of another four essays dealing exclusively with the Indian economy.

The two chapters comprising the first part of the book are authored by the three editors themselves. It has a chapter sketching a detailed biography of Nayyar followed by another one summarising the remaining 19 chapters. While

BOOK REVIEWS

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the biographical chapter undertakes an excursion into the life and works of Nayyar—and includes a succinct bibliography of all the papers written by him—the other chapter summarising the 19 essays that follow, does not seem to succeed in convincing the reader of the logical sequencing of the various essays. Perhaps, such a tight logical sequencing is not to be expected in a Festschrift, where the authors of individual chapters are invited primarily because they are admirers of the scholar in whose honour the essays are written.

What I thought was lacking in the biographical chapter was the failure to highlight Nayyar's important role in opening up systematic empirical inquiries dealing with certain external sector dimensions of India's economic performance. In this regard, there are two issues that come to mind immediately. First, is the study of India's exports and second, is an analysis of India's outward foreign direct investments (FDI). Nayyar's *India's Exports and Export Policies in the 1960s* (Cambridge University Press, 1976), is the earliest systematic work on the topic, and it is interesting to note that there has been no parallel to this book in recent times, despite exports now accounting for about 12% of our gross domestic product (GDP) as compared to only about 3% in the early 1970s. In fact, even a chapter on this channel of globalisation does not find any discussion in the book under review. Another issue that is glaringly absent in the collection is one on outward FDI from

India, with Nayyar (2008) being one of the first scholars to highlight this important trend. Outward FDI has not been doing well, despite its initial surge. Detailed data from the Reserve Bank of India (RBI) shows that after reaching its maximum in 2010–11, since 2011–12, the outflows have started declining. Further, some of these acquisitions abroad have proved wrong, and this has resulted in repatriation of the investments back to India. Alas, there is no discussion of these important trends anywhere in the book, and this is certainly a missed opportunity.

Theory and Practice

Another aspect of the structuring, which the editors have attempted is compiling extremely theoretical papers with empirical papers, and this is risky as the readership for both these categories will be different. The chapters "Auctions with an Inferior Outside Option" by Krishnendu Ghosh Dastidar and "Land Deals in Africa: Host Country Effects in the Presence of Skill Formation" by Gouranga G Das are very theoretical, although they both deal with a theoretical framework for more policy-oriented empirical analysis. There are, however, other papers, which have combined both theory and practice with great dexterity. A very interesting paper in this category is on inequality and conflict by Frances Stewart, wherein an empirical examination of the De Tocquevillean hypothesis—which states that conflicts are always caused by inequality in the distribution of income and wealth—is attempted. But, over two decades of empirical research in conflict studies has challenged the conventionally accepted view that a strong positive relationship exists between economic inequality and political conflicts. Inequality itself manifests in two forms: vertical and horizontal.

The former is inequality among individuals in a society, while the latter is inequality among religious, racial or ethnic groups. While the relationship between vertical inequality and conflicts is questioned by a large number of empirical studies, others have shown a strong positive

correlation between horizontal equity and conflicts. This is because members of a horizontal group are bound together by a common identity, like religion, ethnicity, race or region. The common identity makes it much easier to mobilise people against others with different identities. Globalisation has made people of one particular group connected with people of the same group in another geographical location, and as a result, conflict in one particular region or place is transmitted very quickly to another. In fact, the chapter explains, very effectively, some of the religion-based conflicts that are occurring with increasing regularity across the globe.

Playing 'Catch Up'

The two chapters on "catch up"—a subject Nayar engages with in his book *Catch Up: Developing Countries in the World Economy* (Oxford University Press, 2013)—form another important contribution of the Festschrift. Nayar had identified 25 developing countries¹ with the potential to catch up and Chapter 14 of the collection, titled "Beyond Catch Up: Some Speculations about the Next Twenty-five Emerging Economies" by Sudipto Mundle considers the prospects of these 25 countries to "catch up" by around the middle of the 21st century. The speculation is based on a theory of economic history, which attributes causal primacy to economic and political institutions. The chapter finds that countries in Asia have a better prospect compared to those in Africa and Latin America. This is, in turn, attributed to the presence of inclusive economic institutions in Asia and extractive political institutions in the other two regions.

These concepts have been introduced by the new institutional theory of economic history propounded by Acemoglu and Robinson (2012). Inclusive economic institutions ensure property rights, a level playing field among agents, and a more equitable sharing of the fruits of growth, thereby providing the incentive for innovation, investment and skill development. On the contrary, in the case of extractive political institutions, a small number of elites monopolise political power, and reinforce extractive economic

institutions—which in turn reinforce the elites' monopoly of political power—thereby perpetuating a vicious cycle of stagnation (although the authors of the theory of economic history do not claim that it is a deterministic one).

However, it is not immediately clear that all the nine Asian countries considered in the study have inclusive economic institutions and are at highly varying levels of per capita GDP and life expectancy at birth. All the Latin American countries have more or less similar levels of income and health indicators. The author's optimism that the modified institutional theory of economic history has considerable predictive power for assessing the prospects is not based on any objective criteria. An interesting aspect of the chapter is the comparison of the economic performance of two of the largest countries in the world, China and India. However, their differential performance is explained in terms of whether their political and economic institutions are inclusive or exclusive. China's political institutions are exclusive, but its economic institutions are far more inclusive than that of India. India, on the contrary, has inclusive political institutions, while its economic institutions are exclusive. This kind of a situation has produced two different kinds of reasons. First, China has managed to have a better-educated and skilled human resource that is more suitable for supporting large-scale manufacturing activity. Second, there are significant differences in the quality of governance and service delivery between the two countries. However, I am not sure whether a very satisfactory and convincing explanation for long-term growth can be given by this framework. For instance, high exports and public investments have been behind the Chinese growth performance, while India has grown without having a similar record in exports and indeed in public investment. The chapters also do not make any references to the computational aspects of rate of growth in GDP and the general quality of data to measure the macroeconomic performance of both the countries.

Yet another interesting analysis in the book is one by José Antonio Ocampo on

Latin America's development record. The main concern in the chapter has been the worsening job quality in Latin America, although there are important parallels of this within India as well. Job quality is measured in terms of skills, job stability, and social protection.

The macroeconomic policies that developing countries have to pursue are examined in the chapter "The Global Financial Crisis and Policy Challenges in EMES" by Ananya Ghosh Dastidar. The chapter identifies three areas on which public policy must focus in order to maintain macroeconomic and financial stability, and these are strengthening domestic demand, management of foreign capital flows and the financial real sector feedbacks.

Indian Economy

The more readable and interesting papers are in the second sub-part of Part 4. These are four very readable and closely-argued papers, dealing with major policy debates in the Indian economy: reversing premature deindustrialisation for job creation, a demand-side view of globalisation and the slowdown of the economy. The last chapter questions whether land is indeed a bottleneck for economic development in India. These chapters, thus, provide the reader with a rich fare of issues and analyses with respect to the four topics that are of contemporary relevance in our country.

The chapter "Major Policy Debates in the Indian Economy: Some Reflections," by Y V Reddy identifies and discusses six policy debates that took place in India in the period since independence until now. These are the Mahalanobis model vs the Vakil-Brahmananda model, the currency devaluation of 1966, the International Monetary Fund (IMF) loan debate of 1980, the debate on economic growth vs poverty reduction of the 1990s, and finally, the opening up of the capital account and capital convertibility of the 2000s. At the heart of the Mahalanobis strategy was the emphasis placed on the capital goods sector. In contrast, the Vakil-Brahmananda model laid stress on wage goods, or what they termed liquid capital, in determining the growth of employment and income.

However, two of the important policy debates that took place among academicians, one of which Nayyar (1978) contributed, to have not been discussed at all.

The first is the size–productivity debate, which examined empirically the relationship between size of a holding and its productivity. In very specific terms, the debate focused on examining whether there was a direct or inverse relationship between physical size of a holding and average yield per hectare. This debate took place in the context of land reforms, as there was a concern that breaking large parcels of land into smaller ones may have an adverse effect on land productivity.

The second debate, popularly referred to as the industrial stagnation debate, focused first in establishing whether there was indeed a statistically significant decline in the growth rate of the value added of the manufacturing sector since the mid-1960s and second, in providing explanations for this, in the form of demand and supply factors. Although there was no consensus among the various economists, including Nayyar, who contributed to the debate, there was some remarkable agreement that one of the causes for the stagnation was lack of public investment, especially in infrastructure projects.

Further, there are many other debates during the 2000s that are worthy of discussion. To name just a few: the debate on growth of employment in the economy, compliance of India's intellectual property rights regime with regard to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), FDI in retailing, direct benefit transfer and universal basic income. An inclusion of some of these debates would have made the chapter richer and more up to date.

Fostering Manufacturing

One of the most important dilemmas in the phase of the Indian economy's increasing integration with the rest of the world is the fact that the growing economy has not created enough jobs to absorb India's younger population, which forms almost 65% of its population. The employment elasticity of growth has

been falling constantly since 2000. The newly launched "Make in India" programme is thought of as a solution to the problem of jobless growth by increasing the size of the organised manufacturing sector. The chapter on reversing premature industrialisation by Nagesh Kumar first attempts to empirically demonstrate whether a premature deindustrialisation has been occurring in the country. This is done by examining the share of imports in final consumption of the entire manufacturing sector and across 14 manufacturing sub-sectors, plus mining and quarrying, electricity and construction. The period considered is 2001 through 2011 and the author computes imports used in final consumption on the basis of input–output tables of India available in the World Input–Output Database (WIOD). The analysis showed that imports have risen only in four of the 14 sub-sectors, while for the entire manufacturing sector, it has risen only by 2 percentage points (that too with considerable inter-year fluctuations). So, contrary to what the author claims, his own computations do not provide us with convincing evidence of deindustrialisation occurring in the country, excepting certain specific sectors. The larger worldwide literature on deindustrialisation refers to it as a decline in the manufacturing sector's share of total national employment. If labour productivity increases rapidly, deindustrialisation can occur even as manufacturing output increases or remains constant. So the thesis that India has been deindustrialising prematurely is not convincing enough.

Nevertheless, it is a fact that India has a very small manufacturing sector, given her size and potential compared to many East Asian economies. The "Make in India" programme seeks to enlarge the share of manufacturing in the GDP to at least 25% in 2020 from its current level of about 15%. In this context, the role of the state in industrialisation is required even more, despite the general trend for less government intervention and more space accorded to market forces. In the spirit of this, the chapter critically analyses the relevance of nine policy instruments for promoting manufacturing. These range from privileged access to domestic

markets, public procurement for domestic production, to taking advantage of flexibilities in TRIPS agreement to tweak our intellectual property policy, etc. But as the author himself states, most of these policy prescriptions have already been rehearsed in our country. Perhaps, what is required is more effective monitoring and mid-course correction. The most important takeaway from the chapter is, of course, its correct emphasis on the role of the state in fostering a favourable external environment for domestic manufacturing to flourish in a sustainable manner.

Economic Slowdown

At the time of the Global Financial Crisis of 2008, it was generally believed that India was pretty much immune to the vulnerabilities of the rest of the world, as the exposure of Indian banks to the so-called toxic assets was very limited. However, an examination of India's macro-economic performance indicators immediately after 2008 showed a drastic fall in almost all these indicators such as the rate of growth of GDP, exports, etc. Although growth rates of GDP have since almost climbed back to pre-crisis levels, an important and worrisome aspect has been the continuing slowdown in the rate of aggregate investment. The chapter on globalisation and the slowdown of the economy by Mritiunjoy Mohanty attributes this to the nature and pattern of increasing globalisation of India's economy and the role played by aggregate demand growth. In fact, there is much sympathy with the argument that easy imports destroyed the capability that was assiduously built in some sub-sectors of the capital goods industry. But, this argument can be contested if one looks at the growth performance of some of the important sub-sectors of India's capital

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goods industry where government intervention was all-pervasive. I am, of course, referring to the Indian machine tools industry. At a time when demand for machine tools is increasing thanks to the growing consumption demand from the machine tools industry, this increased demand is largely met through imports, as the domestic industry has not developed sufficient technological capability to service domestic consumption. Similar is the story of telephone equipment. So the attribution of the slowdown in private corporate investment to demand factors is much more complex than what is argued here.

The very last chapter in the collection is the role of land as a barrier to development in India. The acquisition of land for industrial projects has resulted in sharp conflicts and debates. The most important one in this genre has been the Singur case of the state government's acquisition of land for the purported use by Tata Motors to construct a car factory. A Supreme Court verdict in 2016 held that this acquisition was in violation of

procedural mandates of the Land Acquisition Act, 1894. Debates on industrialisation in India have generally shied away from considering this important factor of production. The chapter undertakes a critical review of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. In fact, the act removes or lessens the various institutional and regulatory hurdles that thwart the transfer of agricultural land for other desirable purposes.

Economic Theory and Policy Amidst Global Discontent is thus a formidable collection of papers on a wide range of issues, some being extremely theoretical in nature. As stated earlier, the book, notwithstanding the shortcomings of some arguments, is likely to be a boon to any teacher looking for well-argued papers in economic theory, development economics and indeed, on issues related to the Indian economy. The inclusion of two more papers, one on exports and export policies and another one on outward FDI from India would have,

perhaps, vastly enhanced the usefulness of the book. On a personal note, the fact that two of my colleagues, who happened to hear me discussing this collection, wanted to read it immediately, is itself testament to the book's enduring appeal and fitting tribute to a most important Indian economist.

Sunil Mani (*mani@cds.edu*) teaches at the Centre for Development Studies, Thiruvananthapuram, Kerala.

NOTE

- 1 In actuality there were 26 nations, including Taiwan, which is not considered to be an independent nation by various multilateral agencies such as the United Nations and the World Bank.

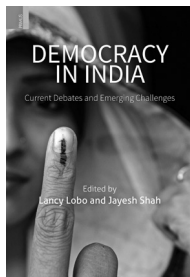
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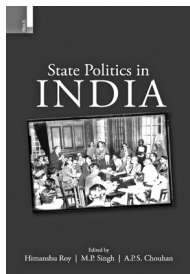


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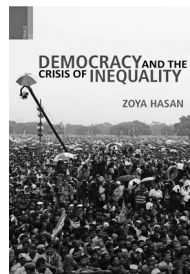


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