

Dancing with Neoliberals

Rethinking Development Economics
edited and with an introduction by
Ha-Joon Chang;
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The back cover to this collection of 23 articles edited by Ha-Joon Chang is aimed at revealing the failure of the neoliberal reform agenda to generate long-term growth in many developing and transition economies. It cites the collapse of the Seattle meetings of the WTO as demonstration of "the increasing dissatisfaction, in both developing and developed countries, with the emerging neoliberal global economic order". However, it argues further, this "increasing demand for an alternative to this orthodoxy is not being met". This book, we're told, is intended to fill this gap. The essays have been arranged under seven headings: overviews; development experiences; structural and sectoral issues; trade, industry and technology; financial markets and corporate governance;

poverty and inequality; institutions and governance. They have been collected by a widely-published younger economist in the forefront of the challenge to the conventional position of today. Ha-Joon Chang is best known for his work 'Kicking Away the Ladder' in which, echoing Friedrich List, he has pointed out that the current stance of the developed countries, wherein they insist that the developing countries desist from any kind of state intervention in their own economies while being open to capital flows from the west – the essence of neoliberalism as communicated here – is tantamount to dismantling the very mechanism that has enabled them to reach where they are today. He has contributed three essays to this collection, apart from having written an introduction. At least two of these essays – on the east Asian development experience and on trade and industrial policy issues – are outstanding. But though an impressive range of issues is considered, the claim that the book constitutes a rethinking of development economics and provides a hoped-for guide to an alternative path for developing economies to follow sadly does not materialise.

Rethinking development economics, or any branch of the discipline of economics itself, is of course a grand project. But one is inevitably on a slippery slope here, for does development economics have a core at all to be re-thought. By "core" I mean some central idea, as in Keynesian economics for instance. For despite the never-ending exegesis of *The General Theory* there is widespread agreement on its fundamental message, which is that under laissez-faire the market economy may generate an underemployment equilibrium. No such core exists for development economics, despite admirable insights such as Rosenstein-Rodan's formulation of the problem of underdevelopment and its implications for policy. Thus rethinking development economics can degenerate into "anything goes" and centering this around a critique of neoliberalism, as suggested by the editor in the Introduction, is a little fanciful even as I believe any reigning orthodoxy on economics needs to be challenged hard. Moreover, while there are clearly issues concerning the developing countries there is by now far too great a diversity among them compared to the 1950s when the sub-discipline had risen for a common approach to be of much use. Compare for instance the concerns today of China and Tanzania. I now engage with the main premises of the volume.

Conventional View of Development

First, there is the issue of what is development. I don't see a view very different from the conventional one of development as growing GDP in this volume. Since Amartya Sen, however, we do have an alternative vision. It is that of development as freedom. Inspired by the liberal political philosopher Isaiah Berlin's "two concepts of freedom", Sen's idea of freedom is a positive one, one that may be summed up as the freedom to act or do. Thus was born the notion of capabilities by now so fully identified with Sen. While it yet begs the question raised by G E Moore in 'Principia Ethica' of whether it is better to be rather than to do (as in "good") it effectively queried the hubris of the early development economists. For instance, we are no longer enamoured of grand narratives that neglect the capabilities of a people. Thus, the capabilities approach is a useful corrective to the early approach in development economics in which the performance of the underdeveloped countries was compared

relentlessly with that of the developed ones while the populations of both were ignored altogether. The human development index, appositely summed up by John Toye in his essay here as "statistically questionable but well-intentioned", was the progeny. The idea of capabilities was a rare microeconomic intervention in what has remained very largely a macroeconomic sub-discipline. We can hardly dispense with a macroscopic vision, but the capabilities approach is entirely compatible with one. Take the following comparative attributes of two economies. One is a dictatorship in which the individual has substantial economic capability but lacks political freedom. The other economy is a democracy with substantial inequality in economic capabilities with a large section of the population falling below what we would consider a minimum acceptable standard. (India and China come readily to mind.) Defining capabilities as the set of both economic and political "goods", we can now say that neither country vector-dominates the other. This is useful information in evaluating the extent of development. We have here a macroscopic rather than a macroeconomic view, the latter being usually concerned with variables such as the investment rate

or the rate of growth of output. Presumably, Sen would have no problem with this use of his idea as he is a champion of democracy. However, the question of political rights finds no place in the Chang volume and this is a major failing. We are no longer in the 1950s when a poorer conception of development economics may have been acceptable. We are also no longer content to hand over our rights to our leaders expecting them to always do the right thing. In fact, I would have thought it the quintessence of "neoliberalism" to ignore political aspirations. It is odd to find their critics to be not entirely free from a similar oversight. Indeed, the approach overall is a little too conventional. Where are the Gandhians, environmentalists and the left wing globalists who are all querying the mainstream economic project each in their own way? Missing these, there is the danger that critics of neoliberalism are merely developmentalists by any other name.

An Omission and a Commission

I turn finally to two limitations of this volume constituting each an error of omission and of commission. Had the idea of capabilities not been missed the editor

may have been saved from the folly of ignoring the central role of resources in economic development. The question of resources with the state assume extreme importance once we recognise that the project of fostering capabilities is unlikely to be initiated on the necessary scale by the private sector. Now resources with the government become central. While deficit financing is entirely feasible in the early stages of the developmental journey it has its limits in the long term, not from the point of view of inflation but, once the public debt is substantial, from the point of view of the stability of the public finances. Poorly managed public finances could not only leave the state a beached whale but can actually contribute to globalisation. I shall be returning to this theme, but after first examining what I consider is an error of commission inherent in the worldview that pervades this volume.

Though Chang's excellent paper 'Trade and Industrial Policy Issues' clearly argues that the nation state today has reasonable autonomy his Introduction and the view of very many of his authors appear to be that in the present global order progress in the developing economies is primarily constrained by neoliberalism. At least this

comes across as their default view so to speak. This is a limited understanding of the current global situation. A central link in this appraisal is that free-wheeling capital severely constrains development. While it may be too early to generalise from the experience of India and China, both growing rapidly even as they are fast integrating into the world economy, we have the examples of Malaysia, Botswana and Costa Rica, all small economies, that have managed to expand the capabilities of their citizens even as they have wooed foreign capital. There is also the example of Chile, that tiny country that has successfully managed to "just say no" to untrammelled capital flows. Moreover, Allende's spirit lives on in this vibrant democracy that has recently elected a woman to lead it.

A fascination for theory is the vice of the academic. But by throwing theory at neoliberals you only end up dancing with them. You must confront them with the evidence. Indeed, the errors of omission and commission that I have flagged may have been avoided if the editor had taken a more empirical approach to the choice of articles. There's just that much more theory here than is useful, most evident in the section on institutions and governance. How could studies on China and India be excluded from a volume devoted to the rethinking of development economics? If there are two countries, together accounting for more than a third of the world's population, that buck the logic of what Chang would term neoliberalism it is these. Here import-substituting industrialisation has finally come of age with a depth of manufacturing capability and IT skills that no degree of openness to western multinationals could ever have succeeded in bringing about. Truly, one might say, a case of history (of development economics at least) being written by the victors. India even begins to smell faintly of roses when you recall that it has achieved what it has by largely democratic means, even as you recognise the irony that this may have been possible as it had had an undisputed leader in Jawaharlal Nehru.

I end with two examples from India that I believe add to our understanding of how the neoliberal ideology spreads and how it can so easily be held back. First, the state governments in India, are completely protected from international capital flows and can bypass them with ease in their policy formulations. Indeed, they could follow, whatever policies they wish if only they

marshall the resources. It is only the fact of their being broke due to entirely self-serving populist policies that stands in the way of their enhancing the capabilities of their people. Second, third world governments contribute actively to the advance of neoliberal globalisation through gratuitous engagement with global elites. Thus the government of a debt-strapped Kerala chooses to parley on unequal terms with the Asian Development Bank for a mess of pottage, And the right wing Shiv Sena government of Maharashtra and the Left Front government of West Bengal have, in the last five years, both turned to McKinsey and Company for advice over superior domestic expertise. Speak of a colonial mentality! The possibility of a developmental state lies entirely within the realm of the internal politics of a country. The contemporary global order is of course a constraint, but unlikely to be the binding one always for all countries. Now here is this more evident than in the tragic history of Africa—a land rich in people and resources. We need to recognise that while the continent has proved to be the graveyard of Bank-Fund "strategies" so had Julius Nyerere's *Ujamaa* failed even before the collapse of the Berlin Wall and the subsequent unrivalled rise to power of the forces

which Jagdish Bhagwati has courageously identified as the Wall Street-Treasury Complex. Reading Chang's collection one might be led to miss this perspective.

But hey, there's more to a body of knowledge than its empirical accuracy! Ha-Joon Chang's is a major effort at challenging the current international orthodoxy in economics. And there are some fine essays in it. My fear is that in an India where doing economics is increasingly associated with implementing statistical packages or following every shallow lead from western academia this book may fall between the panel-data regressions. That would be a pity. So if you are a practising economist read it; if you are an academic make sure to have it on your reading list. The book has been produced most beautifully by Anthem Press. I did not spot a single typo or spelling mistake. An index would have helped, even though this may not be considered *de rigueur* in a volume of essays by different authors. [37]

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[I dedicate this article to Krishna Raj who had given me this book to review, but many years before that had given me a chance.]