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Decongesting economic power

This crisis is a chance to rethink Indian economic policy and focus on informal, lower income sectors

Devaki Jain, Mon, May 11 2009

One of the steps that has been taken at the recent Group of Twenty (G-20) summit in London is the broadening of control over financial transactions, for example, by the inclusion of India and some other developing countries in the renamed Financial Stability Board. The G-20 meetings also showed that there are now new players—several more from the developing world—in the global economy, who might give a new direction to macroeconomic ideas. As one commentator put it, it could be the end of Anglo-Saxon economics!

However, it is this dimension—the opportunity to bring in new ideas of economic progress, identification of other engines of growth drawn from the characterization of the developing countries, further decongesting and democratizing economic power—that has not received much attention in India.

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What could be the elements of this other side or kind of revival? In short, relocating the engines of growth and strengthening the interdependence of supply and demand in lower spaces, areas and regions.

To illustrate this: First, capitalizing on the exclusion from the economy of the majority of economic actors. A characteristic of the Indian economy, which is not very dissimilar from some of the economies of other developing countries, is the existence of what can be called two circular economies—what K.N. Raj used to refer to in the 1960s as the Brazilian model: two self-sustaining circular economies, one for the underdogs and one for the cats. The traditional *haats* apart from some of the Sunday markets in our cities, where brisk trade is conducted with a certain segment of the population being both buyers and sellers, is one such example. At the minimum, there is a need to protect these economic spaces from dislocation, from usurpation of their spaces for buildings and car parks.

But, on a more positive level, there are economic reasons for supporting local economic cycles. Many commentators, ranging from Joseph Stiglitz to Mihir Shah, and others, have emphasized the fact that the marginal propensity to consume is not only higher among the lower income deciles, but that their demand is very widespread, high volume and for basic goods—which, in turn, are produced by the lower income deciles! So it makes good economic sense, especially in a country with such large masses of the deprived.

While there may be what are called emergency relief measures given to soften the impact of shrinking markets for certain products, the more long-lasting response should be to pay more attention to the informal economy in terms of enabling self-organization as economic entities that can negotiate their terms, pamper them with the kind of pampering that earlier economic policies provided to special economic zones and tech parks: namely infrastructure, including technical support for backward and forward linkages, with all the other ingredients such as power, credit, skill development and organization.

The Indian economy is characterized by two economies, one for the underdogs and one for the cats.

India has an extraordinary experience of sensitive regulatory mechanisms which enable coexistence of the large and the small, of the hand and the machine. Another economic tool is both product differentiation and product reservation. For instance, in the 1950s, woven bordered saris were only to be produced by handlooms—an example of product differentiation. Another technique used was for the state to purchase certain supplies only from refugee cooperatives and other welfare associations, or product reservation.

One lesson from this for the current recession could be for the state to purchase unsold stocks of labour-intensive products, and provide a price and market support mechanism so the engines of production do not grind to a halt in those vulnerable sections—for later offloading by the state.

This appears to be a far more enduring and non-destructive method than turning those disengaged from such work to sites under the National Rural Employment Guarantee Act. Alternatively, the state could also help them set up more self-help groups and pump in microcredit at a time when the viability of enterprise as well as markets is shrinking. This would keep the engines oiled and those skills intact.

In the rural areas, India has an advantage over economies where agriculture is in plantation or cash crop-mode for trade—they are small farms and, what is more, largely cultivated by women. Investing in organizing their economic activities in such a way that there is food for self-consumption but also some form of organized supply to what is called the market can have a double take: food security for less privileged households and food supply for the market.

India has another advantage, namely, the local self-government agencies that provide the perfect structure to put the decongestion plan on the ground. It is estimated that Rs300 crore is pumped into each district every year. District planning synchronized with not only credit planning and poverty indices but also for localizing economic dependence, especially for food and jobs, could decongest economic and political power, or another form of meltdown.

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