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## **Beyond GDP: The Debate on Globalization & Development**

**J.S. Sodhi**

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*The growth debate had taken an interesting turn since the close of the last century as the hitherto known socialist economies also preferred the neoclassical route to economic growth. The Indian experience showed that those without assets, the uneducated, the wage earners and the unskilled have been the major losers in the process of globalization. The government therefore needs to serve the role of a vigilant market regulator. The preoccupation of policy planners must shift beyond GDP. While development needs to be redefined in a broad-based manner to include many more elements for which GDP remains an important enabler, human development must be taken as the ultimate goal of development, argues the author.*

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### **Shifting Economic Growth Paradigms**

The dominant economic growth paradigms during immediate post-War II years and until about the last decade of the previous century were somewhat sharply divided. While nations in Eastern Europe and South Asia, among others, followed Keynesian prescriptions which clearly recognized the role of the state in directing the development process through a strict regulation regime including in the financial sector, economies like the USA, UK, Western Europe and others went ahead with the dictum that free markets are a *sine qua non* for sustainable growth. In the latter group of countries the state's role was significantly reduced and markets, principally the financial markets, were deregulated (for example, repeal of the Glass-Steagall Act in the United States in 1999).

The growth debate had taken an interesting turn since the breakdown of the Soviet led socialist block and the onset of globalization around the beginning of 1990s. The hitherto known socialist block preferred to resort to the neoclassical route to economic growth and thus let the

market forces dictate the course of their economic fortunes including the free flow of trade across nations. Globalization for the neoclassical economists meant the set of rigid policies such as capital account convertibility, fully flexible exchange rates, no restrictions on borrowing abroad and unlimited access to debt based on the consideration that the exchange rate would stabilize it in absolutely free markets. By the close of the last century the distinction between the two blocs began to blur as most nations joined the globalization bandwagon. As Stiglitz (2006) writes “Globalization, thus, was greeted with great euphoria as capital flows to the developing world increased almost six-fold in six years from 1990 to 1996”.

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The World Bank and the International Monetary Fund (IMF) jumped in to the forefront and along with the developed countries, they became the ardent champions of globalization. Trade liberalization through removal of government intervention in financial and capital markets and elimination of barriers to trade were recommended. Nations seeking IMF loan (and there were a large number of them) were given these prescriptions/conditionalities which they were required to adhere to. The World Trade Organization also championed the mantra of trade liberalization—lowering of tariffs and trade barriers as the panacea of growth

in the globalizing world. Many countries like India, USSR, Brazil and others in the developing world changed their ideological stances and the policy frameworks were ipso facto reversed.

Globalization, many argued, is not new as it has been the conventional economists’ thinking and what ensued was the rapid integration of the world economy in to a global market by the late nineteenth and early twentieth centuries. However, Bhagwati (2004) highlights that today’s globalization is different from the earlier integration of the world economy because of the following four factors:

1. Globalization of the earlier era was based on transportation and communication and not by policy changes as it is today.
2. Movements of services and capital are much faster now because of developments in information and communication technologies.
3. Economic insecurity is higher today because of growing integration of nations worldwide and the resultant competitive pressures.
4. There is the fear that globalization places limits on the freedom to provide for the welfare of its citizens.

### **Globalization Outcomes**

Growth through globalization has its ardent supporters. Equally there are others who oppose the way it has been managed. The proponents argue that globalization has helped the developing nations achieve higher rates and diversified

growth and that, most importantly, it is socially benign. GDP growth rates in many newly globalized countries have not only been much higher than they were in the Keynesian era but have also been followed by faster reduction in the appalling levels of poverty. Better communication in these countries has substantially enhanced the awareness of rights and identities, e.g. information technology has immensely helped the poor farmers get higher prices for their produce. It has also been forcefully argued that the globalization process has induced innovation, entrepreneurship and immensely contributed to wealth creation. The anti-globalization views were, therefore, branded as anti-capitalist (Bhagwati 2004). Others like Stiglitz (2001) point out that globalization is neither socially benign nor has it been instrumental in reducing poverty, it has been detrimental to the poor and other weaker sections of society, on the contrary. Globalization policies transmitted at an amazing speed many of the global financial crisis-induced ills to the unconnected developing nations, massive losses of employment as inefficient industries were closed down under pressure from the international competition, for instance

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#### **Prosperity-Poverty Co-existence**

England prospered in the nineteenth century but pauperism grew alongside.

The US economy grew faster during the 1980s but those at the bottom saw their real incomes decline (Stiglitz 2003). This assertion has been strengthened over the years in the case of a large number of countries. The overwhelming evidence has supported these views as it was becoming clearer that globalization was leading to the emergence of a new clan of rich and capitalists, leaving the majority to trail far behind. There was a glaring paradox of higher growth rates and equally higher exclusion of larger masses throughout the world. The inequality between the rich and the poor, between regions within the economies and nations was growing. The ratio of the GDP per capita in the richest country to that in the poorest country almost doubled from 35:1 in 1950 to 70:1 in 2000. The ratio of GDP per capita in the twenty richest countries to that in the twenty poorest countries rose from 54:1 in 1960 to 120:1 in 2000. The number of billionaires has increased manifold and so has the number of poor people in the world. India, for example, counts fourth among the dollar billionaires in the world and eighth among the dollar millionaires. Yet it has been slipping in the human development index (Nayyar 2007). The share of the richest one per cent in the gross income more than doubled in the United States, United Kingdom and Canada during the last fifty years. Globalization had also led to catastrophes like the Asian and the Mexican crises.

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### **Traces of Agreements**

Economists now agree that a complementary set of policies is required to make the desired all round impacts. Poverty has reduced in the East Asian countries because their policies “ensured that the rising tide of growth did lift most boats, that wage inequalities were kept in bounds, that educational opportunities were extended to all” (Stiglitz 2002). Bhagwati (2004) agrees: “We need to consider ways in which we can reinforce the benign social effects of globalization. ....history of developmental economics shows that earliest development policy makers tried hard to improve the access of the poor to growing incomes by making it easier for them to borrow and invest.” The recent financial crisis has deeply strengthened the thinking that markets cannot be left free and unregulated. State policy has an important role in the process of development. The stimulus packages announced to deal with the crisis clearly demonstrate a change in this direction.

### **Beyond GDP**

Simultaneous with the expansion of neoclassical economics was a school of thought, led by the United Nations Development Programme (UNDP) that advocated development is not just economics but about people. Countries need to equip their people with capabilities to benefit that arise from the opportunities of globalization. UNDP had, as early as 1991, developed a human development index (HDI), which included life expectancy at birth, level of education and per

capita income. Higher rates of GDP growth in the past decade were not accompanied by simultaneous improvements in human development. India, for example, had a GDP growth of over 8 per cent for three years preceding the financial crisis but has been ranked as low as 128 in the HDI. This is true of a large number of countries. The GDP of the United States grew at 5.7 per cent in the fourth quarter of 2009 but the levels of unemployment have been soaring and the fear of recession was far from over.

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Based on the normative approach, Sen (1999) has convincingly put forward the case that development must be conceived as a process of expanding the real freedoms that people enjoy. The five freedoms, according to him, are economic facilities, political freedoms, social opportunities, protective security and transparency guarantees. Bhagwati (1985) has taken growth merely at its instrumental value, as a means to an end and the end is clearly the elimination of poverty. Similarly, Basu (2004) holds the premise that “Ultimately an economy has to be evaluated in terms of what happens to the poorest and the dispossessed. Everything else, such as nation’s income growth rate, is of instrumental value.”

GlobeScan, a research firm based in Canada and London, surveyed 1000 people each in ten countries not including the United States. When asked whether health, social and environmental status should figure in measures of national progress as much as economic data, between 70 per cent (Russia) and 86 per cent (France) agreed (GlobeScan 2007). Countries like Bhutan have been measuring growth through what is called the gross happiness index. There are others who think the real indicator should be the happy planet index (HPI) which takes into account the environmental costs of development. The United States ranks 114 on the HPI and United Kingdom 74. Costa Rica is on top of the list as it has long life expectancy, high life satisfaction and a per capita ecological footprint one-fourth the size of the United States.

The recent debate has been widened to suggest that GDP should be replaced by what is called the genuine progress indicator (GPI) which takes into account everything the GDP uses, but adds other figures that represent the cost of the negative effects related to the economic activity (cost of crime, cost of ozone depletion and the cost of resource depletion, among others). The GPI nets the positive and negative results of economic growth to examine whether or not it has benefited people overall. As Bresser-Pereira (2010) explains, GPI indicator has grown in stature and has been used in Canada and the United States since 1995. However, both these countries still report their economic information in GDP terms to remain in line with the more wide-

spread practice. Although GPI and GDP calculations are based on the same personal consumption data, GPI also applies monetary values to non-monetary aspects of the economy. The variables fall into the following general categories:

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- Personal consumption is the same data used to calculate GDP.
- Income distribution: GPI is adjusted upward when a greater percentage of the nation's income goes to the poor. GPI is adjusted downward when the majority of a nation's increased income goes to the rich.
- Housework, volunteering, higher education: GPI factors in the value of the labour that goes into housework and volunteering. It also factors in the benefit of an increasingly educated populace.
- Service of consumer durables and infrastructure: Money spent on durable goods is treated as a cost, while the value the purchases is treated as a benefit. Long-lasting goods that provide benefits without having to be frequently repurchased are viewed positively. Goods that wear out quickly and drain consumers' wallets when they must be replaced are viewed negatively. GDP, on the other hand, views all expenditures as good news. Infrastructure spending by the government is treated

in a similar manner: if spending provides a long-lasting benefit, GPI views it as positive; if spending drains the government's coffers, GPI views it as a negative. Again, GDP views all spending as positive.

- Crime: Rising crime costs money in legal fees, medical bills, replacement costs and other outlays. GDP views this spending as a positive development. GPI treats it as negative.
- Resource depletion: When wetlands or forests are destroyed by economic activity, GDP views the events as good news for the economy; GPI views these events as bad news for future generations.

#### **Alternatives to GDP Fetishism**

Nicolas Sarkozy, the French President, had commissioned a report in 2008 by twenty-five social scientists, including Nobel laureates Joseph Stiglitz and Amartya Sen, to find alternatives to 'GDP fetishism'. The report is divided into three parts. The first deals with the objections to GDP as a measure of well-being. Since GDP does not take into account the depreciation of capital goods it actually overstates the value of production. The value of production is based on market prices but does not reflect crucial aspects like the state of health care or education or environment which has a price. Second, the commission examines various measures of the nation's quality of life. The attempt here is to capture the national well-being beyond the mere economic resources it commands. Third, the report then examines the well-being

of future generations (*The Economist*, 'Measuring What Matters' 1 September 2009).

#### **India: Foreign Exchange Crisis & After**

India followed the Keynes's prescriptions after Independence till 1991 and since then its growth paradigm has moved closer to the neoclassical framework. As is well known, the most important push factor for India to change the development model was the crisis of the precarious foreign exchange reserves and an urgent need to take recourse to an IMF loan. The loan was granted by the IMF with conditionalities relating to liberalizing trade, rationalizing public-sector expenditure and financing, privatizing public-sector undertakings and reforming the fiscal sector to mobilize and allocate resources efficiently. The thrust of the changes was on developing free markets and reducing the role of the state. In view of the deep-rooted ideological stances and techno-economic structures developed during 1950–90, it took India some time to effectively move towards the neo-classical approach to development. The policy planners also adopted prudent policies of globalization and have so far refrained from adoption of total convertibility of the rupee, despite tremendous international pressures to the contrary.

Along with this, the government adopted policies, though inadvertently for an entirely different set of reasons, such as infusion of massive purchasing power through pay rises for the government

employees, minimum employment guarantees to those below the poverty line, farm credit waver etc which proved to be a blessing in disguise during the recent global financial crisis when it actually landed at the Indian shores. The crisis policy framework was in fact much broader and comprised the fiscal stimulus package amounting to 3 per cent of the GDP and additional public spending, particularly capital expenditure, government guaranteed funds for infrastructure, cuts in indirect taxes, expanded guarantee cover for credit to micro and small enterprise and additional support to exporters. The monetary measures were targeted at maintaining a comfortable level of liquidity position. Specifically, some of the measures were: augmenting foreign exchange liquidity; maintaining a policy framework that would keep credit delivery on track to arrest moderation of growth; a rupee-dollar swap facility to Indian banks; an exclusive refinance window for non-banking financial companies and lendable resources available to apex finance institutions for refinancing credit to small industries; and expanding housing and exports. The policy framework of the neoclassicals was implemented through a package of policies known as liberalization and globalization. This phase of development has had a mixed bag of results.

### **The Cheerful Outlook**

Desai (2007) and some others hold the view that the period of globalization has been an astounding success story of growth. Poverty, for instance, has been reduced at an unprecedented scale, al-

most halved during the last twenty years. Furthermore, it took almost forty years to quadruple income after 1950 while during the period of globalization it took just twenty years. The post-globalization decades have also witnessed higher rates of GDP growth. Estimates for the April-June 2010 quarter showed a GDP growth of 8.8 per cent. Growth in the previous quarter was 8.65 per cent as against 3.8 per cent during the same period in the earlier year. The GDP is expected to grow at over 8.5 per cent in 2010-11 compared to 6.7 percent last year. The three years before the crisis were best for the GDP growth (almost 9 per cent each year). The per capita income has also been growing at close to 8 per cent during these years. In the period 1992-98, GDP had grown by over 6.95 per cent compared to 5.5 per cent in the 1980s. The growth in all the years has been broad-based as most sectors, except agriculture, have shown higher rates of growth (*Economic Survey* 2010). India's fundamentals are strong and the economy is poised to achieve about 9-10 per cent rate of growth in the coming years.

The growth in the post-globalization period has not bypassed the rural sector either. For instance, there has been an increase in the proportion of households using electricity (from 34 per cent to 54 per cent), cooking gas (2 per cent to 11.71 per cent) and refrigerators. The poorest of the poor, i.e., those who go hungry during some or all the months of the year, have reduced from 5.5 per cent during 1993-94 to 2.6 per cent during 2004-05. The post-1991 growth has seen the emer-

gence of Information Technology (IT), Financial and the Retail sectors. IT & ITES (Information Technology Enabled Services) and has witnessed creation of about 10 million jobs which would not have been possible without globalization policies. These sectors are also likely to achieve very high growth rates in the coming years. The country also has a very comfortable foreign exchange position both in terms of the foreign direct investment and foreign institutional investment. What triggered the economic crisis in 1991 was the precarious foreign exchange situation.

### **Beyond Macroeconomics: The Melancholy Picture**

The Indian experience showed that those without assets, the uneducated, the wage earners and the unskilled have been the major losers in the process of globalization. The proportion of such people is very high as 94 per cent of the workforce is employed in the informal sector. Poverty persists and the National Sample Survey Organization (NSSO) data for 2004–05 shows that about 27.5 per cent of the population is below the poverty line. However, the Tendulkar Report (2009) puts it as high as 37.2 per cent, *albeit* with a different measure of poverty. More important, almost 74 per cent of the population survived below one dollar a day. Urban poverty declined slower than the total poverty and that of the rural areas (NSSO, 1993–94; 2004–05). The share of urban poor in states like Bihar, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh increased from a staggering

61.6 per cent in 1983 to an astounding 70 per cent in 1993–94 and skyrocketed to a phenomenal 76 per cent in 2004–05. The dispersion of growth rates around the average in the 1980s (pre-reform) was less than it was in the post-reform period. Poverty is directly associated with material deprivation along with a range of other deprivations like lack of voice, destitution and social and political exclusion (Kozel & Parker 2003).

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### **Crisis & Beyond**

The recent crisis has taught the policy makers that they need to be a vigilant regulator of the market. While all that the neo-classicals stand for are not falsehood there is an equally important place for the Keynesian recipe. A deeper analysis of the risks and uncertainty is crucial. In fact the preoccupation of policy planners must shift beyond GDP. Development, therefore, needs to be defined in a broad-based manner, by including many elements for which GDP remains an important enabler. Human development must be taken as the ultimate goal of development. This is also an imperative for the policy makers. Effectiveness of the delivery process is paramount for making a dent on poverty. While it is pertinent to imagine that this can only happen if the existing system changes, for effective policy one must take people to be the way they are and then craft incentive-compatible interventions, as the policy think

tank (Basu 2004) outlined. It is hoped that politicians will listen to this counsel and act accordingly.

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