The return of structuralist macroeconomics

Lance Taylor, who passed last week, lectured in Delhi in 1988. He made macroeconomics come alive and relevant to this dissatisfied economics post-graduate, addressing structural barriers to growth and equity that simplistic supply-side macroeconomics bypassed.

Lance was the contemporary doyen of structuralist macroeconomics, then well outside the mainstream of the economics profession. A structuralist by conviction, he resigned a tenured professorship at the Massachusetts Institute of Technology to work outside the mainstream. But the structuralist school was unique in that it was formed and shaped in the developing world, in Asia, Africa and South America, unlike any other economic theory. It attracted a swathe of economists from rich and poor countries, who saw through the game. "Supply side" economics was deliberately sterile and designed to enrich rich countries and rich people by ignoring the impact of things like inequality and effective demand. The delegitimisation of an interventionist state delivering common prosperity, and its replacement by "efficient financial markets" took the income and wealth of the top 1 per cent to dizzying heights— only for the State to bail them out when things fell apart in 2008.

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Two things differentiated structuralist from mainstream economics: First, the assertion that economics was not just about the supply side— maximising output without including the majority in the production of that output would lead to impoverished societies and the permanent exclusion of many from the benefits of growth. Second, the rejection of mindless empiricism where "the numbers" determined policy action without reflecting on why these numbers arose, how they were selected, and how they were used to draw policy conclusions.

Sukhamoy Chakravarty was India's foremost exponent of the structuralist macroeconomics. In a seminal essay he argued that the question of home market demand was key to why the Indian economy continued to stagnate despite the alleviation of supply side constraints. Rising inequality and continued rural impoverishment, despite the Green Revolution, combined with jobless growth, was creating a shortage in mass-market demand. I have argued that this continues to be a limiting constraint to India's development in many different dimensions. Rising inequality has meant that while the top 10 per cent of India has enjoyed transformative economic prosperity since 1991, the inability to include even the next 20 per cent in this transformation has meant: (1) An economy that is still largely rationed except for the top 15 per cent and a State that, therefore, continues to act as a rationing agent for the majority —whether it is health, education, transport, or housing. (2) The lack of prosperity means limits to taxation and recourse to borrowing to finance government expenditure and transfers — to compensate the 80 per cent who have not benefited from the tripling of per capita income that has occurred since 1991.(3) An informal sector that continues to employ the vast majority in conditions of extreme insecurity. (4) The impoverished majority from the North and the East migrate, if not abroad, then to be servants, cleaners and service providers to their prosperous fellow citizens in the South and the West.

These are all "structural" constraints — the consequences are many but they will not be addressed by policies that persist with supply-side obsessions or mindless "data-driven" empiricism. India's inability to export will not be solved by creating special economic zones or other enclaves that try to bypass structural barriers because no country with such a huge home market can bet on becoming an export powerhouse if it cannot produce at scale for even those citizens who are earning three times the per capita income.

Pump priming the economy will not solve for this structural demand deficiency, captured so well 35 years ago by Lance Taylor when he theorised "Belindia" —a country where the top 10 per cent prospered like Belgium while 90 per cent languished in "India" resulting in unequalising growth and eventual stagnation in the middle-income trap. That was Brazil in 1976. I fear it may be India in 2026.

Structural economic change is therefore of the essence but sadly, there is no political ideology that is able to take on this formidable challenge. Bigotry, populism and a compensatory state are lazier options to gain political support and popularity.

But the impetus for structural change may well come as a global ideological imperative. The contemporary economic situation poses challenges that have exposed the hollowness of the "mainstream" framework. A period of global stagflation has set in. Industrial unrest is on the rise. Central Banks around the world have shown themselves hopelessly inadequate at inflation control— the very soundness of the "data driven" inflation targeting framework is now questioned. Governments are encouraged to run large debts and deficits. Protectionism is on the rise, free trade on the wane. Inequality is now viewed as the central problem of our times but there is little that the policy toolbox offers to address it. The biggest votaries of renewables and anti-coal and nuclear evangelists in Europe have reopened their coal mines and nuclear plants. Climate action has been side-lined.

Structuralist economics is well equipped to address these challenges for which supply side economics and "data driven" randomised control trials are patently inadequate. There may be prolonged recourse to populist quick fixes, authoritarian hate regimes that turn citizens against each other, and a period of military conflict. This is what has happened in such times, in the past. But if we can do better, and develop an ideology of inclusive prosperity then these are easily countered. This is precisely what structuralist economics is equipped to do. If that were to happen, there could be no finer tribute to Lance Taylor's life and work.

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1 See Rajyadhaksha, N (2019) for an exposition on its contemporary relevance www.idfc.org/knowledge/ publications, October

2 Taylor, L and Bacha, E (1978) "The Unequalizing Spital: A first Growth model for Belindia" Quarterly Journal of Economics, May