

## Interview with Jayati Ghosh

**Jayati Ghosh** Jayati Ghosh is Professor of Economics at the Centre for Economic Studies and Planning, Jawahar-

lal Nehru University, New Delhi. Since 2002 she has been the Executive Secretary of [International Development Economics Associates](#) (IDEAS), an international network of heterodox development economists. She is Founding Trustee of the [Economic Research Foundation](#). has received the NordSud Prize for Social Sciences 2010 of the Fondazione Pescarabruzzo, Italy, and has been awarded the ILO Decent Work Research Prize for 2010.

**She recently answered the following questions for the WEA Newsletter:**

### 1. What is the point of studying economics?

Why study economics? One reason of course is to understand the workings of the material world around us and the social relations that are expressed in economic form. But perhaps even more than in the other social sciences, there is a focus on being able to change things for the better. Not for nothing did economics in Europe emerge from what is broadly called "moral philosophy", and the idea that such study is not only designed to interpret the world but also to change it has been quite firmly developed. One of the earliest tracts on the subject from India, the "Arthashastra" of Kautilya that dates from around 300 BC, is essentially an exercise in statecraft that also dwells on how to ensure the material security and progress of the subjects of a realm ([see here](#)).

The English economist Alfred Marshall (no raving radical) used to keep a photograph of a poor worker on his desk to remind himself of the rationale for his work and for who it should be directed. So the desire for positive change has always been a compelling reason for engaging in this discipline.

This may seem excessively idealistic today, when so much of the professional discipline and so many of its practitioners seem to be caught in the more self-serving version of material improvement, when economics has come to be regarded as the great defender of the status quo or (even worse) of change that essentially favours the interests of large capital in various forms. Yet I still come across many students who come to the study of economics with the same integrity, thirst for knowledge and passion for change that has driven all the major contributions to our subject over the decades.

*My approach is to take a political economy perspective on studying and analysing economic processes. This means recognising that economic processes are intertwined with social, political and cultural processes, and that history matters.*



### 2. How would you briefly state your perspective on economics?

My approach is to take a political economy perspective on studying and analysing economic processes. This means recognising that economic processes are intertwined with social, political and cultural processes, and that history matters. Crucially, it also means emphasising

realism even while developing theoretical constructs, and keeping one eye firmly on the data that provide us with some sense of the actual reality.

This does not mean doing away with theory or abstraction. While abstraction at various levels is necessarily required for theoretical analysis, it must still retain and capture the essence of particular contexts, even if that makes the theorising more complicated as a result. Thus, conceptualising the working of an actual economy while assuming, say, perfect competition or constant returns to scale in most activities, is not just a waste of time - it is actually counterproductive. Similarly, markets cannot be assumed to function in a vacuum independent of history, or of the political and social power relations that then tend to be reflected explicitly or implicitly in various forms of market power.

Similarly economic policies of the state cannot always be treated as the well-intentioned moves of an independent state, a *deus ex machina* that is somehow external to and above the social and political relations of groups and individuals with different and often competing interests. In a very basic sense, the underlying issue of the distribution of power in different forms is absolutely critical. Thus economics is necessarily about politics, and politics is about economics.

Recognising this obviously makes the study of economic processes more complex and challenging, but also more nuanced and fruitful, and therefore more satisfying. It is particularly important when studying the economies of development and trying to understand how economic processes unfold over time. It is also crucial when trying to understand how particular economic policies are chosen and implemented, and what impact they have.

This also means that - while broad or "grand" theories are useful to some extent - the study of economics must be adjusted to the specific history and socio-cultural and political context of the economy that is being considered, along with explicit recognition of the nature of its past and present interaction with other economies.

### 3. How does this compare to the mainstream?

While the approach I have described above was clearly shared by all the classical political economists of the 19th century as well as by structural and development theorists of the mid-20th century, it is already evident that the current mainstream approach has moved very far from this. And what is worse is that current policy making advice as dispensed by the major international economic institutions has moved away from recognising any nuances and complexity at all, in favour of one-size-fits-all solutions that are universally prescribed irrespective of the actual requirements of the economy concerned or the internal and external forces that could cause particular policies to have effects that are very different from those officially anticipated.

For example, policies of open trade based on static comparative advantage can have devastating effects in countries where the activities that generate increasing returns are still inadequately developed. This is not only because they eliminate the likelihood of expanding such activities (as they get wiped out by foreign competition), but also because they reduce the possibilities of creating positive synergies and wider dynamic scale economies that have been features of all successful development experiences. Similarly, reducing control over the financial sector has many adverse effects, not only the now well-known features of volatility and fragility that can generate periodic crises, but also the reduced ability to direct finance towards socially desired or strategic activities - and as it happens no country has yet developed without such directed finance in some form.

Despite such knowledge, the international institutions routinely continue to dispense not just dated but dangerous advice to developing countries. What is worse is that their approach reflects a broader tendency that has grown even within public institutions to curb the very development of knowledge in this respect. This has happened in several ways: by conniving in reduced state funding to genuinely independent research and forcing more researchers to undertake "sponsored" research by interested parties; by suppressing voices of dissent, however rational and reasoned they are; and by encouraging the established academe (through its associations, journals and peer reviews, rating systems that govern academic employment, and so on) to suppress dissenting views and tolerate or reward only those who stick to the straight and narrow in terms of the prevailing economic orthodoxy.

### 4. How do you see economics changing with the changing global distribution of economic activity?

The past two decades have been seen as the period of "emergence" of some developing countries as major exporters and importers, as well as new sources of foreign capital flows. Many of these countries have "emerged" precisely because they ignored the advice they were given to rely on free markets and so on to ensure their

development. To that extent, the validity of heterodox approaches to development is confirmed. Such experience must surely give greater credence to a diversity of positions and different ways of analysing and proposing economic changes. Further, this tendency is widely perceived to have significant implications for existing trade structures and patterns, as well as for global power as expressed in other ways. In particular, it means that developing countries themselves have alternative sources of capital inflows, alternative markets other than those in the North, and even alternative channels of migration compared to the past.

However, a note of caution is also in order. There is no doubt that the world economy is changing and older power imbalances are shifting to newer and more complex scenarios. But a premature celebration of this tendency in emerging economies, without careful recognition of the realities and limitations inherent in the process, is not only unjustified but can even be described as hubris. This is particularly so if growth expectations continue to rely on a development strategy that is unlikely to deliver sustained growth in future. There are at least three considerations that make the current strategy of choice in the "successful" countries one that will be hard

*...the study of economics must be adjusted to the specific history and socio-cultural and political context of the economy that is being considered, along with explicit recognition of the nature of its past and present interaction with other economies.*

to sustain in the future: the impact of financial liberalisation; the mercantilist obsession with export-oriented growth that generates adverse distributive consequences; and the inadequate attention to ecological imbalances that are already evident and emerge from the patterns of material expansion. Most growth strategies in developing countries need to change in order to deliver genuinely equitable and sustainable expansion and to ensure that growing South-South interaction is productive and beneficial to all parties.

### 5. What are the elements of an alternative economic strategy for development?

Globally, everyone now recognises the need to reform the international financial system, which has failed to meet two obvious requirements: preventing instability and crises; and transferring resources from richer to poorer economies. Not only have we experienced much greater volatility and propensity to financial meltdown across emerging markets and now even industrial countries, but even the periods of economic expansion have been based on the global poor subsidising the rich. Within national economies, this system has encouraged

pro-cyclicality; it has rendered national financial systems opaque and impossible to regulate; it has encouraged bubbles and speculative fervour rather than real productive investment for future growth; it has allowed for the proliferation of parallel transactions through tax havens and loose domestic controls; it has reduced the crucial developmental role of directed credit. Given these problems, there is no alternative to systematic state regulation and control of finance. Since private players will inevitably attempt to circumvent regulation, the core of the financial system \* banking \* must be protected, and this is only possible through social ownership. Therefore, some degree of socialisation of banking (and not, as in the past, just socialisation of the risks inherent in finance) is also inevitable. In developing countries this is also important because it enables public control over the direction of credit, without which no country has industrialised.

Second, the obsessively export-oriented model that has dominated the growth strategy of most developing countries for the past few decades needs to be reconsidered. This is not a just a desirable shift – it has become a necessity given the obvious fact that the United States cannot be expected to act as the engine of world growth through increasing import demand in the near future. This means that developing countries in general, and particularly those in developing Asia that continue to rely on the United States and the European Union as their primary export markets, must seek to redirect their exports to other countries and most of all to redirect their economies towards more domestic demand. The latter requires a shift towards wage-led growth particularly in economies that are large enough to sustain this shift. This can happen not only through direct redistributive policies but also through public expenditure to provide more basic goods and services.

Third, this means that fiscal policy and public expenditure must be brought back to centre stage. Clearly, fiscal stimulation is now essential, in both developed and developing countries, to cope with the adverse effects of the current crisis on the real economy and to prevent economic activity and employment from falling. Fiscal expenditure is also required to undertake and promote investment to manage the effects of climate change and promote greener technologies. And public spending is crucial to advance the development project in the South and fulfil the promise of achieving minimally acceptable standards of living for everyone in the developing world. Social policy – the public responsibility for meeting social and economic rights of citizens – is not only desirable in its own right but it also contributes positively to economic development.

Fourth, there have to be conscious attempts to reduce economic inequalities, both between countries and within countries. We have clearly crossed the limits of

*.... public control over the direction of credit, without which no country has industrialised.*

what is “acceptable” inequality in most societies, and future policies will have to reverse this trend. Globally and nationally, we have to recognise the need to reduce inequalities in income and wealth, and also most significantly in the consumption of natural resources. This is even more complicated than might be imagined, because unsustainable patterns of production and consumption are now deeply entrenched in the richer countries and are aspired to in developing countries. But many millions of citizens of the developing world still have poor or inadequate access to the most basic conditions of decent life, such as minimum physical infrastructure including electricity, transport and communication links, sanitation, health services, nutrition and education. Ensuring universal provision of this will inevitably require greater per capita use of natural resources and more carbon-emitting production. So both sustainability and equity require a reduction of the excessive resource use of the rich, especially in developed countries but also among the elites in the developing world. This means that redistributive fiscal and other economic policies must be specially oriented towards reducing inequalities of resource consumption, globally and nationally. For example, essential social and developmental expenditure can be financed by taxes within countries that penalise resource-wasteful expenditure.

Fifth, this requires new patterns of both demand and production. This is why the recent focus on developing new means of measuring genuine progress, well-being and quality of life are so important. Quantitative GDP growth targets, which still dominate the thinking of policy makers, are not simply distracting from these more important goals, but can even be counterproductive. For example, a chaotic, polluting and unpleasant system of privatised urban transport involving many private vehicles and over-congested roads actually generates more GDP than a safe, efficient and affordable system of public transport that reduces vehicular congestion and provides a pleasant living and working environment. So it is not enough to talk about “cleaner, greener technologies” to produce goods that continue to be consumed according to the same old and now discredited pattern of consumption. Instead, we must think creatively about such consumption itself, and work out which goods and services are more necessary and desirable for our societies.

Sixth, this cannot be left to market forces, since the international demonstration effect and the power of advertising will continue to create undesirable wants and unsustainable consumption and production. But public intervention in the market cannot be knee-jerk responses to constantly changing short-term conditions. Instead, planning – not in the sense of the detailed planning that destroyed the reputation of command regimes, but strategic thinking about the social requirements and goals for the future – is absolutely essential. Fiscal and monetary policies, as well as other forms of intervention, will have to be used to redirect consumption and production towards these social goals, to bring about such

shifts in socially created aspirations and material wants, and to reorganise economic life to be less rapacious and more sustainable.

This is particularly important for the quality of life in urban areas: the high rates of urbanisation in developing countries mean that in many populous countries more than half the population already lives in urban areas. Yet, because systematic urban planning for the future to make cities pleasant or liveable for most residents is still so rare, there is still a tendency to create urban monstrosities of congestion, inequality and insecurity.

Seventh, since state involvement in economic activity is now an imperative, we should be thinking of ways to make such involvement more democratic and accountable within our countries and internationally. Large amounts of public money will be used for financial bail-outs and the provision of fiscal stimuli. How this is done will have huge implications for income distribution, access to resources and the living conditions of the ordinary people whose taxes will be paying for this. So it is essential that we re-design the global economic architec-

ture so that it functions more democratically. And it is even more important that states across the world, when formulating and implementing economic policies, are more open and responsive to the needs of the majority of their citizens.

Finally, we need an international economic framework that supports all this. In this regard, it is important to have better control and regulation of capital flows so as to ensure that they do not destabilise any of these strategies, but it is not sufficient.

The global institutions that form the organising framework for international trade, investment and production decisions also need to change; they have to become not just more democratic in structure, but more genuinely democratic and people-oriented in spirit, intent and func-

tioning. Financing for development and conservation of global resources must become the top priorities of the global economic institutions, which means in turn that they cannot continue to base their approach on a completely discredited and unbalanced economic model.

*...there is still a tendency to create urban monstrosities of congestion, inequality and insecurity.*

## WEA BOOKS

In previous newsletters we have mentioned the possibility of developing WEA books.

We are now pleased to announce that we have had an offer of collaboration by College Publication ([www.collegepublications.co.uk](http://www.collegepublications.co.uk)) a small and dynamic publisher specializing in academic books and journals. So far they have operated in the fields of science, mathematics and informatics and they value the opportunity of branching out into economics with us.

They have a strong reputation for high academic quality in the fields in which they have operated so far and have attracted world renown authors. The books they publish are produced to a high standard and are visually attractive. What is also very important to us is that they have a pricing policy of high accessibility. Low price is one of the features we want for our books to make sure that they will be accessible throughout the many countries in which we have members. They will be distributed through Amazon.

We aim to publish books that respond to the aims of WEA and specifically books that promote pluralism and inclusivity. We shall start with books as edited collections of some of the papers – and possibly comments – from our conferences. We shall consult outsiders on the quality of each book proposal. Later we may also move into the production of hard copies of our journals.

This is an exciting venture and we hope to have the support of our members in it.

**Edward Fullbrook**  
**Grazia Ietto-Gillies**

## Contact the Association

### Journal editors:

**RWER:** Edward Fullbrook [fullbrook@worldeconomicsassociation.org](mailto:fullbrook@worldeconomicsassociation.org)

**Economic Thought:** [ETEditor@worldeconomicsassociation.org](mailto:ETEditor@worldeconomicsassociation.org)

**World Economic Review:** [wereitor@worldeconomicsassociation.org](mailto:wereitor@worldeconomicsassociation.org)

### Conferences: Chair of Conference Organizing Committee:

[conferences@worldeconomicsassociation.org](mailto:conferences@worldeconomicsassociation.org)

**Newsletter editor:** Stuart Birks [k.s.birks@massey.ac.nz](mailto:k.s.birks@massey.ac.nz)

*The World Economics Association Newsletter is published in the UK by the World Economics Association.*