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HOW SHOULD THE GLOBAL SOUTH PLAN ITS FUTURE BEYOND NEO-LIBERALISM?

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The neo-liberal regime has reached a dead-end. The global north, especially the U.S., has already introduced protectionism; though aimed ostensibly against Chinese goods, it does represent a violation of the rules of a neo-liberal regime. True, such violation has so far been limited to the sphere of trade rather than of financial flows (the relocation abroad of capital-in-production has also attracted some punitive measures in the U.S.); but it raises the question: how should the global south plan its own transcendence of neo-liberalism? The answer to this question however requires a wider discussion of development strategy, especially with regard to trade openness.

I

David Ricardo's advocacy of free trade had assumed away any demand constraints upon output in any country, which is not surprising since Ricardo had been a votary of Say's Law. Likewise, the neo-classical advocacy of free trade assumes that there is always full employment of all factors of production in every country. The free trade argument in short has always assumed that each country is on, rather than inside, its production possibility frontier, *both before and after trade*; what trade does in such a situation is that it induces greater specialization in each country in keeping with its "comparative advantage" which produces a vector-wise larger output of the goods and services for *all countries taken together*. Compared to the pre-trade situation therefore, each country can only become better off (and certainly not worse off) through trade. Trade *is thus a form of cooperation* among countries which benefits every country. It follows that those who value cooperation should also value trade without any restrictions.

This conclusion may perhaps have some relevance in a world consisting exclusively of socialist countries, each of which is necessarily "resource constrained" (in Kornai's (1979) sense); but it is totally inappropriate for the world in which we live, which is essentially a capitalist world where economies are always "demand-constrained". Let us consider two countries each of which is "demand-constrained". When trade opens up between them, since there is

no exogenous factor causing the aggregate demands of the two countries *taken together* to expand, the total employment of the two together has no reason to expand either (leaving aside labour-intensity considerations). At the base prices and exchange rate, one country would normally have a positive trade surplus vis-à-vis the other, while the other would have a corresponding trade deficit. One would therefore have an increase in employment through trade while the other would have a decline; the very opening up of trade, and generally the institution of free trade, thus becomes a tool for a "beggar-my-neighbour" policy.

Of course, exchange rate depreciation in the country with the deficit is supposed to eliminate this deficit; but there are three problems with such an exchange rate depreciation: first, the world demand for the goods produced by the deficit country, and also those imported by it, may not be sufficiently responsive to a depreciation; second, if the deficit country depreciates its currency, then the surplus country too may retaliate by depreciating its own currency, in which case there would be no benefit from its exchange rate depreciation for the deficit country. And third, even assuming that the demands for the deficit country's exports and imports are sufficiently elastic, and that there is no retaliation, there is still a problem with exchange rate depreciation, namely that any nominal exchange rate depreciation, in order to bring about a real effective exchange rate depreciation, must entail a lowering of the wage-share (for given profit-margins).

Let us assume for instance that both countries are oil importers to start with and that the international price of oil is given (and for convenience that trade of each country with the oil exporting country is balanced to start with)[1], then an exchange rate depreciation by, say, x percent in the deficit-country, would raise its price-level by x percent if its product wage-rate and the profit-margin remain unchanged, in which case there would have been no real effective exchange rate depreciation. It follows that the country with the deficit, even assuming that the demands for its imports and exports are sufficiently elastic and that there is no retaliation, *would have to have a lower product wage-rate in order to have the same level of employment as in the pre-trade situation.* Trade in short does not improve its situation; on the contrary it worsens it.

What is more, an exchange rate depreciation would not occur at all if the trade-surplus country makes available the requisite credit, whether directly or through financial intermediaries, to the trade-deficit country for financing its

[1] These assumptions are not really necessary. Even if each country produces its own oil but its domestic oil price is linked to the world oil price, the conclusions arrived at in the text will follow.

deficit at the existing exchange rate. In this case, there would simply be a decline in employment but no fall in the product wage rate. At some future date however when such credits are not easily available, there will be a decline in its exchange rate, but such a decline may not come to a natural halt because of speculation. In such a case a loan from the IMF may become necessary to assure the speculators; but the price to be paid for such a loan would be fiscal "austerity" and hence a further decline in employment.

It follows that when there are demand-constrained systems all around, trade is a means not of cooperation among countries to better their conditions, but of competition among them, with each trying to do down the other.

But that is not all. If one of the economies is supply-constrained in its export sector while the other is demand-constrained, which is typical of a colonial pattern of international division of labour (with the colony producing primary commodities whose output in any period cannot be increased in response to larger demand), then the opening up of trade would lead to a "deindustrialization" of the former, which in fact then becomes the means for the "release" of its exportables, as happened in history. Here again trade becomes a means of oppression rather than of co-operation.

The picture of trade as a means of international cooperation, presented by institutions like the WTO, invariably invoke the Ricardian or neo-classical theoretical arguments; but this is totally illicit for the world that we inhabit. It represents nothing else but a sleight-of-hand to force free trade and, in consequence "deindustrialization", down the throats of the world's poorest economies.

II

What is true of a single period is also *ipso facto* true of a sequence of periods: what is called export-led growth in a world where the functioning of markets does not automatically ensure a sequence of full employment equilibria in every country, necessarily means each trying to steal a march on others to grow faster. Export-led growth necessarily means not cooperation among countries but acute competition among them. It entails an acceptance of the capitalist "ethic" that apotheosizes Darwinian competition. And when a strategy of export-led growth is sought to be made successful by bolstering it with an "industrial policy" or a policy of "dumping" one's goods on the international market, its essential nature of being an expression of acute Darwinian competition becomes even more clearly manifest.

Let us pause here, first, to discuss what exactly is meant by a strategy of export-led growth, and, second, to list, for the sake of convenience, the problems with a strategy of export-led growth.

Export-led growth refers to a state of affairs where exports are the driving force of growth, neither private investment (and private consumption) nor government spending (whether for consumption or for public investment). Since private investment in any case occurs only in response to an expansion of the market, and private consumption growth is generally a fall-out of economic growth rather than being an independent driver, they hardly ever constitute an autonomous driving force for growth, except on occasions when there are pronounced asset-price "bubbles". (It is the U.S. asset price "bubbles" that really count in this respect, but what they create are opportunities for export-led growth for *other* countries). State spending however can constitute such an independent driving-force; but if state spending is constrained by the fact that the state cannot tax the rich (for fear of driving away globalized finance capital) or enlarge the fiscal deficit relative to GDP beyond a small limit (usually 3 percent) for the same reason, then it too ceases to be a driving force behind growth. In the neo-liberal dispensation under which we live, growth in most countries is thus neither public spending-led nor private spending-led, but necessarily export-led.

Let us first look at the problems of such a strategy for a single economy before discussing the macro-economics of a world where all countries are pursuing such a strategy. In what follows therefore we look at an economy where government spending is a certain fixed proportion of the GDP, as is private consumption, with private investment depending on the rate of change of GDP. Such an economy must be experiencing export-led growth. Let us see the problems with this strategy.

The first relates as we have seen to its very philosophy, which entails not cooperation among countries as is often suggested, but acute competition of a Darwinian kind. Second, in this competition, any economy that has a current account deficit not only has a level of employment lower than it could have had if its trade had been balanced, that is, if it domestically produced an amount of goods equal to its import surplus; but it also gets into external debt for financing this deficit. It thus loses out both in terms of employment (which here is a notional loss) and also of indebtedness (which is a real loss). Third, if perchance the rolling over of debt, or the servicing of debt, become problematical, for instance if there is a rise in the current deficit because of a drop in exports, arising from a slowing down of the world economy or arising from factors beyond the control of the country in question, then there would be an exodus of finance from that country, engineered by speculators in anticipation of an exchange rate depreciation; such an exodus forces it to approach the IMF which imposes "austerity" and, hence brings enormous strains on the working people. In other words, any initial difficulty becomes

immensely magnified because of the country's being in the grip of speculators. It can make a transition from being a "middle income" country to being a "basket case" with amazing rapidity[2].

The fourth problem arises because of another aspect of being caught in the vortex of globalized financial flows. Being so trapped undermines the autonomy of the "nation-State". This, it may be thought, has nothing to do with export-led growth *per se.* But if a country embarks on the path of export-led growth, and ends up becoming a trade-deficit country, then to finance this deficit it has to borrow; and to do so it must remain open to the inflow of finance capital. This strategy not only foredooms several countries of the developing world to sudden crises emerging from the perversity of global financial flows, but also prevents meaningful state intervention to improve the conditions of the working people for fear of driving finance away.

All these arguments remain valid whether or not the country in question experiences high or low growth because of the pursuit of this strategy, though of course low growth compounds the country's problems in obvious ways. But then, it may be asked: is there a choice before the developing countries? What alternative development strategy can they follow which can improve on a relatively secure basis the living conditions of their working people?

III

To answer this let us contrast, again in the context first of a single country, an export-led growth strategy, with its necessarily associated openness to global financial flows (at least in contemporary conditions), with one that focusses on the domestic market which is protected to the extent required to avoid trade deficits, and is driven by government spending that is uncircumscribed by the caprices of globalized finance, because of the imposition of strict capital controls. We shall discuss the issue by examining, to start with, whether the country can do better with this alternative strategy, in the sense of having a higher level of activity in every period than would prevail under the export-led-growth-strategy; and we do so for a country that has a current account deficit.

Two hurdles would appear against any strategy for enlarging employment: one, there may be class resistance from the capitalists to reducing to any notable extent the magnitude of unemployment, or the reserve army of labour; but this alternative strategy is being discussed here in terms of its *supra-institutional* feasibility, not in terms of its feasibility under *the existing form of capitalism,* for in the latter case any strategy other than the one being followed, or one in its close neighbourhood, would appear

[2] This is a phenomenon we have observed of late in our neighbourhood in countries like Sri Lanka, Pakistan and Bangladesh.

infeasible. Of course a high level of employment *may* cause inflation, which may appear to justify capitalists' class resistance to such an alternative strategy. But avoiding inflation does not preclude an increase in employment *from the level reached under the export-led growth-strategy*; besides, the alternative strategy must include price controls, if necessary, based on an incomes policy.

The second hurdle may be that it simply is not possible for the country in question to obtain its requirement of imports if it raises it level of activity beyond the export-led-growth-strategy equilibrium. For instance it may not have any oil reserves at all and have to import all its oil requirement. In this case any increase in activity would raise the import bill beyond the initial state, which obviously cannot then be financed without re-inviting the strangle-hold of globalized finance. Going beyond the level of activity permitted by the export-led growth strategy then becomes impossible. This issue requires an extended discussion that we attempt below.

Let us assume for simplicity that production in the country just takes the form of adding value to an imported current input. In any period along the export-led growth trajectory, output is given by $C+I+G+X-M$, with $X-M$ being negative *ex hypothesi*. With C,I,G remaining unchanged, if M is cut back to equal X, then aggregate demand and hence output and employment would be larger, since *ex hypothesi* unutilized capacity for doing so and unemployed labour exist in the domestic economy. Can this be done?

We have to distinguish here between essential imports and inessential imports, confining the former to the import of the current input alone. Let us denote the coefficient of essential import per unit of *gross* value of output by m^*, and the total import of the input by M^*. Then in the initial situation, since *gross* value of output is $C+I+G+X-(M-M^*)$, with the term in brackets representing only final goods imports, we must have $M^* = m^*.[C+I+G+X-(M-M^*)]$. Now, through protection, $(M-M^*)$, that is final goods imports, get reduced and domestic production correspondingly increases, and with it the need for the imported input. As long however as

$[m^*.(C+I+G+X)] < X$… (i)

there cannot be a foreign exchange constraint on enlarging employment.

But, with our protection against final goods imports, the countries from whom such imports were being obtained would retaliate by cutting down on our exports. The initial X therefore cannot be maintained.

But just as X would be falling, import substitution *in the production of the imported input*, would also be lowering m^* to ensure that inequality (i) keeps getting maintained. Ultimately even if X falls to zero, m^* can also be lowered to zero to make sure that a higher level of employment than in the initial situation obtains, which means that the economy would have become

completely self-sufficient. True, so far we have assumed that domestic unutilized capacity exists which can be utilized for replacing all kinds of imports with domestically produced goods; and this assumption may not hold. But this assumption not being fulfilled only means that it will take a longer time for domestic production to replace imports, as long as such replacement is possible.

But it may not be possible at all. Small economies may not be able to produce a whole range of goods, and even large economies like India which can produce a whole range of goods may still have to depend upon imports for certain essential commodities like oil. For small countries therefore, the quest for self-sufficiency should bring them together to form economic unions that can be largely self-sufficient and that can reap the benefits of economies of scale; and to the extent that even such unions, and even large countries like India, have to rely on imports of certain essential commodities like oil which they may not possess at all, they should attempt to reach bilateral trade agreements with oil producing countries to import oil without having to earn dollars or other hard currency for such imports.

Bilateral agreements are increasing of late, for instance between Brazil and China or between India and the UAE. This is necessitated *inter alia* by the number of countries against which the U.S. and other advanced countries have imposed unilateral sanctions that are not mandated by the UN Security Council. Moving towards a world of such arrangements, which is a means of attaining economic self-sufficiency appears a desirable course at present, since the level of activity and employment under it is not constrained by foreign exchange availability. *South-south cooperation in the coming days should take the form of establishing economic unions which can be more or less self-sufficient and can mimic "national" self-sufficiency, and also of having such bilateral trade agreements.*

Why, it may be asked, should we aim at national self-sufficiency? There are at least four reasons for it, none of which can be attained under the existing international arrangement. First, it enables the achievement of much higher levels of employment and hence the elimination of poverty, by freeing *inter alia* the nation-state from the need to kow-tow to the dictates of globalized finance capital. So far we have shown that the employment that can be achieved in a slice of time by an economy that is self-sufficient is higher than if the country was on an export-led growth path but with a perennial trade deficit. But the question may be asked: what if the export-led growth path achieves *a higher rate of growth?*

We discuss this issue theoretically in a later section. But here we just note that such a possibility is out of the question in the current world

conjuncture. The rate of growth achieved by an economy along the export-led trajectory, leaving aside beggar-my-neighbour possibilities, depends upon the rate of growth of the world economy. This has come to a standstill now with pervasive talk among economists of a "secular stagnation". Compared to this, a self-sufficient country can certainly achieve a much higher growth rate. Employment in such an economy therefore will not only be higher in any slice of time; but even the growth rate of employment will be higher.

Second, the alternative strategy frees the country (countries) from the domination of metropolitan powers and of institutions like the IMF and the World Bank which they control. Third, it makes food self-sufficiency possible, thereby preventing perennial malnutrition and occasional famines which have historically characterized the global south. And fourth, it prevents the wide fluctuations in the level of activity and employment which countries of the global south are subjected to under the current neo-liberal arrangement[3].

IV

Three objections will be immediately raised against any such quest for national self-sufficiency. The first would be a conceptual objection: since protectionism creates employment at the expense of imports, and hence at the expense of the country from which these imports come, is it also not an instance of "beggar-my-neighbour" policy? The answer is clearly "no", since the scope for state intervention to increase aggregate demand and hence employment in the country, from which our imports are being reduced through *our* protectionism, remains in this alternative strategy. What would be a "beggar-my-neighbour" policy in a regime of export-led growth, ceases to be one when that regime is abandoned.

The second objection would be that if the economy is protected, then that discourages innovation and hence technical progress. But this is a dubious argument which ignores the fact that today's advanced capitalist economies have all been protected for much of their histories and are now, after a brief interregnum, once again moving towards protectionism. In fact, the most celebrated cluster of innovations that has ever occurred under capitalism, namely the industrial revolution that ushered in industrial capitalism, took place after nearly a century and half of heavy protectionism in Britain against imports of the very product, cotton textiles, where the revolution occurred. In

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[3] Self-sufficiency, it should be noted, does not mean that the country does not engage in any trade at all with the rest of the world. Basically, it means that the country does not depend upon the rest of the world (other than those with whom it has bilateral trade agreements) for its *essential imports*, that is, those imports which have a general cost-push effect. As long as the local currency prices of essential imports are fixed, trade with the outside world in inessentials can be balanced through a regime of adjustable import duties or foreign exchange auctions or any other such arrangement that is domestically non-inflationary.

the first half of this period of a century and a half, even the wearing of cotton apparel had invited fines that were quite heavy by contemporary standards; later while the wearing of cotton or mixed apparel was permitted because Britain's domestic industry had begun producing such apparel, prohibitively high tariffs were imposed against the imports of cotton products from countries like India (Mantoux 2013). Hence the argument that protectionism discourages innovations has little evidence to support it.

Besides, since employment should be the main objective of economic policy, a frenetic increase in the rate of growth of labour productivity cannot be a desideratum, whence it follows that the introduction of innovations should be selective. While innovations in areas such as healthcare should be obviously promoted, any across-the-board promotion of innovations has to be eschewed (Patnaik 1997). Hence, even if protection becomes a dampener on the introduction of innovations, this fact *per se* should be of little concern.

The third objection focusses on the question of "efficiency". Self-sufficiency implies producing a whole range of goods for domestic use, instead of importing them. It involves for many goods therefore incurring higher unit costs than in countries which enjoy a cost advantage in such production, and hence entails higher prices to be paid for such goods than if they were imported, which violates "efficiency".

The term "efficiency" that is used to describe this phenomenon however is a misnomer (Patnaik 1997a). "Efficiency" of production in any economy presupposes as a logical pre-requisite that the economy should be operating on its production possibility frontier. But since this does not happen in a demand-constrained system, to talk of efficiency being achieved in such an economy through trade is utterly meaningless.

What is certainly true is the obvious point noted above, namely, that erecting a protectionist barrier around an economy raises the cost to consumers of goods that would otherwise have been imported but which are now domestically produced under the regime of national self-sufficiency. There is thus a trade-off between obtaining goods cheap through imports and increasing the level of employment in an economy for which protectionist barriers are erected in the first place. But in any such trade-off, priority must be accorded to the employment objective. It is interesting that both Gandhi and Mao had emphasized, each in his own way, the need to accord priority to the employment objective in a poor country. (Mao had done so when he had commended the making of "backyard steel")[4].

[4] Such priority to the employment objective would entail domestic protectionism, but unless the potential beneficiaries of low import prices also see the need for such priority to be accorded to employment and hence unless they too endorse protectionism, they would

V

The question arises: what should be the *modus operandi* for achieving national self-sufficiency? The fact that if exports are not the driving force behind growth, then public spending will have to be the driving force, is obvious. But the role of public spending in an economy of the global south is not just as a stimulator of demand; it is not enough for the government to undertake expenditures that are analogous to paying people to "dig holes in the ground and fill them up". Public expenditure, while it would no doubt stimulate demand, has to play simultaneously a number of other roles, of which at least some need to be mentioned.

The first is the provision of essential services like education and health. Privatization of these services is the surest means of excluding large numbers of people from their purview: privately-run educational and healthcare establishments, as they are run on the profit-motive (whether openly or implicitly), necessarily price these services so high that the bulk of the people either cannot afford them at all or can do so only by reducing their expenditure on food. Besides, at least in the realm of education, the academic freedom necessary to create an atmosphere where teachers and students engage in critical thinking, can only be provided in public establishments and not in private ones that commoditize educational services.

The second area where the role of public spending is crucial is the creation of infrastructure. Infrastructure projects generally involve long gestation periods, which is why they do not tempt private investors unless they are heavily subsidized by the state; besides if the prices charged for the use of the infrastructure are to be kept low, then private investors are further deterred from undertaking investments in this area. It follows that infrastructure projects must be the responsibility of the state which must make the necessary investment.

The third area is agriculture, where public investment is required as the means of inducing complementary private investment. Public investment in canal irrigation for instance elicits private investment in tube wells, which not only raise land productivity directly but also make the adoption of high-yielding

become a powerful, subversive oppositional force against the country's self-sufficiency. Gandhi had wanted them to eschew their own preference for (cheaper or better quality) foreign goods for the sake of their unemployed "brothers", that is, to have a consensus behind the employment objective. This conflict of interest also figured in Tagore's novel *Ghare Baire.* The contrasting positions of Gandhi and Tagore sum up between them the crux of the dilemma of development in the Global South. I have surveyed this contrast in Patnaik (2011).

varieties of seeds worthwhile[5]. Likewise the research and development carried out in government establishments, if distributed free to farmers through government-provided extension services, plays a key role in promoting "land-augmenting practices". In the absence of government initiatives in these ways, the farmers are thrown into the embrace of multinational agribusiness, which undermines their independence and makes them victims of corporate encroachment. Likewise in the sphere of marketing, unless the state provides price-support arrangements, peasant indebtedness and peasant destitution over a period of time become impossible to prevent.

These measures on the part of the government are required for bringing about food self-sufficiency which, as noted earlier, is a key component of national self-sufficiency. In a protected economy, the rate of growth of foodgrain production is what ultimately determines the rate of growth of the economy. As Kalecki (1972, 152) had put it: in a mixed underdeveloped economy "the main 'financial' problem of development is that of adequate agricultural production". Non-inflationary growth requires that

$$e.(g - r) = g_f - r$$

where e is income elasticity of demand for foodgrains (at the base income distribution), g the rate of growth of the economy as a whole, r the rate of population growth, and g_f the rate of growth of foodgrains.

The agricultural sector has to provide not only the required foodgrains for economic development but also the market for non-agricultural goods. Nicholas Kaldor (1978) has suggested that industrialization can occur in a country not necessarily through exports to other *countries* but through "exports" within the country from industry to agriculture. Hence if conventional export-led growth is to be avoided, then industrial growth in the alternative scenario must occur through "exports" to agriculture, that is, it must be agriculture-led[6]. And public spending must be in areas supporting peasant agriculture that make this possible, for which certain measures of land reforms to eliminate landlordism would also be necessary.

The fourth sphere where state spending would be required is in subsidies and transfer payments to the working people. Food subsidy in particular plays a big role in reconciling, via a public distribution system, a remunerative price for

[5] Of course excessive use of water can have damaging environmental consequences. The need over time is to move away from such cultivation through the adoption of appropriate agricultural practices. These practices too have to be developed under the aegis of the state.

[6] Since agricultural growth can be influenced by the spending of a particular nation-state, unlike the growth of the world economy and hence the rate of export growth to other *countries* (in the absence of beggar-my-neighbour policies), the growth rate of the economy would be higher under a strategy of national self-sufficiency in a period when the world economy is experiencing secular stagnation.

the peasants with an affordable price for all other segments of the working population: to feed a public distribution system the government has to procure foodgrains from the peasants at remunerative prices; these are then distributed to the other segments of the working population at affordable prices through the public distribution system. Besides these subsidies, a host of other transfers may become necessary, all of which have to come out of the government budget.

Fifth, the state must own and control all mineral and other exhaustible resources. This is both because the gains from the sale of these resources as long as they last must accrue to society as a whole which the state alone can claim to represent, and also because in the quest for profits, the private sector tends to use up the exhaustible resources in an inoptimal manner.

There are similar and well-known arguments for state ownership for natural monopolies. There would be other considerations for public ownership too, such as breaking private monopoly power, or providing a specific product cheap to the consumers, and so on; but these will have to be decided in the concrete context. In short, what exactly constitute the "commanding heights" of the economy that the state should control in order to meet social objectives has to be decided in a concrete manner and will keep changing over time for overcoming the contradictions that would inevitably arise; the foregoing are only some examples.

VI

All this however is reminiscent of the *dirigiste* economic strategy that had preceded the introduction of neo-liberalism in countries of the global south. But if neo-liberal "reforms" could be introduced without any notable resistance from the working people, which is indicative of the lack of enthusiasm they had for the *dirigiste* strategy, then how can they be expected to support a transition from neo-liberalism back to some form of a *dirigiste* strategy now? The transcendence of neo-liberalism in short must be accompanied by not just an alternative *strategy* but an alternative mode of empowerment of the people; it must entail not a return to the old but the introduction of something altogether novel. And such a novel element entailing an empowerment of the people would be the introduction of a set of Constitutionally-guaranteed, justiciable, and universal, fundamental economic rights.

If the *modus operandi* of national self-sufficiency is the institution of an alternative *dirigiste* regime, then the question arises: how are the people to exercise control over this *dirigiste* regime? Such control must be exercised by the people, not just through periodic elections of the government, which, as we know, are a remarkably inefficacious instrument for exercising control, but

by making it obligatory for the state to satisfy a set of fundamental economic rights of the people.

There has been much support of late for the idea of a universal basic income. The state should raise everybody's income to this level by providing transfers to those who are below this level; and these transfers can be financed through taxing the rich. The idea of a universal basic income however has obvious lacunae.

First, it is not empowering, in the sense that it cannot avoid giving the impression of being a largesse on the part of the government. Second, there is nothing to prevent such transfers being withdrawn if the fiscal situation becomes unfavourable. They are in short a largesse on the part of the government that can be withdrawn any moment. Third, and most important, transfers in the form of money are of little use unless with that money the people can access certain goods and services. For instance if there are no government schools or hospitals in the neighbourhood, then with the money transferred to them the people cannot access education or healthcare for their children, or can only do so in private facilities where the transfer amount they have got would be woefully inadequate.

The institution of a set of fundamental economic rights is free of these lacunae. They are empowering for the people and obligatory on the part of the government, so that there is no question of their being interpreted as its largesse; they cannot be withdrawn at the whim of the government; and they force the government to build schools and hospitals, that is, make the relevant goods and services available instead of reneging on this responsibility and just handing over some money. The typical argument advanced against the institution of rights is that the resources for it are not available in a poor country. This however is not true.[7]

VII

So far we have been talking about a single country that is large enough to attempt national self-sufficiency. Most countries of the global south however are too small to attempt to be self-sufficient on their own. They have

[7] It has been estimated in the case of India (Patnaik and Ghosh 2020) that the financial resources for instituting five fundamental economic rights, that is, a right to food (universalizing what is normally available at present to the population below the poverty line), a right to employment (failing which a statutorily-fixed wage has to be paid), a right to free quality healthcare through a National Health Service, a right to free quality education up to the secondary level, and a right to a living old-age pension and disability benefit, can be raised by imposing just two taxes on the top 1 percent of the population, namely, a 2 percent wealth tax, and a 33 1/3 percent tax on any inheritance passed down to progeny or any beneficiary. Of course raising finances alone would not make real resources available. For raising adequate real resources the measures discussed earlier have to be taken.

to get together with other countries in their neighbourhood to form economic unions, and each such union can attempt to be largely self-sufficient. The question arises: what should be the basis on which such unions ought to be formed?

Clearly a decisive consideration behind such a formation must be that the union should be sufficiently diversified in its productive potential for its self-sufficiency to be a plausible objective. And any union among neighbouring countries to mimic a self-reliant national economy must of course have the basic characteristic of a common market, viz. common external tariffs vis-à-vis the rest of the world and no internal tariffs amongst the countries making up the union.

In addition it must have the following extra characteristics: first, as a unit it must make every effort to become as self-sufficient as possible. There is not much point having an economic union between two countries if the first produces for the international market and keeps to itself the foreign exchange it earns, while the second is starved of foreign exchange even to obtain its basic necessities from the world market. Their production structures must be so integrated as to produce the basic necessities for both countries within the union itself.

Second, the trade surplus among the countries constituting the union must be settled by the surplus country making adjustments to eliminate its surplus, rather than the deficit countries being forced to eliminate their deficit, as was the case under the Bretton Woods system and as is the case now. Otherwise, the same inequities that characterize the current world order would be reproduced within the union.

This itself however would not eliminate wide disparities, and even growing disparities, in living standards among the countries constituting the union. The third characteristic therefore must be free mobility of labour across the countries of the union. This is a requirement of any economic union and is also a feature of the European Union. At the same time, there has to be a conscious effort to ensure that people are not forced to move from one country to another within the union. For this a certain redistribution of resources within the union must be institutionalized. One possibility could be, and this is our fourth point, that the richer among the countries of the union should be made to provide as a *grant* to the poorer ones every year a certain percentage of their GDP.

Of course the precise nature of the union will vary over time as the contradictions of the arrangement as it exists at any time become apparent. But the quest for national self-sufficiency represents a break from the

desperate efforts of countries to outcompete one another which capitalism compels them to do.

The economic union in itself is an instance of cooperation among countries. Besides, the quest for national self-sufficiency, whether pursued by a single country or by a union of countries, necessarily cuts out the Darwinian competition among countries. Each country pursues its own path to maximum employment without treading on the toes of other countries. But while it entails a rejection of the capitalist *ethic* in this respect, the capitalist *property relations* ar

e not immediately overthrown, This creates a contradiction which will have to be addressed in due course.

VIII

So far we have argued that the strategy of self-sufficiency is superior to the strategy of export-led growth in the context of the secular stagnation that currently afflicts the world economy. Our criticism of the export-led growth strategy in other words gas been merely contextual, not conceptual. Is there a conceptual argument against this strategy too? I believe there is in a demand-constrained system.

A positive growth-trend in capitalism which is a demand-constrained system, arises, as we know, from the existence of "exogenous", as distinct from "endogenous" stimuli (Luxemburg 1963, Kalecki 1962)[8]. Endogenous stimuli entail that growth continues because it has been occurring, which does not prevent the system settling at a stationary state; on the contrary, a stationary state is the only stable equilibrium for a capitalist economy which has only endogenous stimuli. Exogenous stimuli are those which stimulate demand independent of whether growth has been occurring in the past, and hence prevent the system from settling at a stationary state. Contrary to general belief, innovations are not a genuine exogenous stimulus (Patnaik and Patnaik 2021), for in an oligopolistic setting innovations are held back from being introduced through *additional investment* when the system is stagnant. Besides, in any period in such an economy, only that much private investment occurs as is dictated by the growth of the market; this investment however takes the *form* dictated by the new processes and new products. No additional investment however occurs because of the innovations.

Incursions to pre-capitalist markets, which Luxemburg had emphasized, and state expenditure, financed either by a fiscal deficit or by taxes on the rich (and not on the working people who consume much of their income anyway), constitute such genuine exogenous stimuli. For the world economy under a neo-liberal regime, however, where individual nation-states are not free to

[8] For a detailed presentation of the Luxemburg-Kalecki argument, see Patnaik (1997).

provide such stimulus, and where there is no "outside" to export to, there is no genuine exogenous stimulus. The only surrogate for an exogenous stimulus in the world economy under such a regime, is the formation of "asset-price bubbles", especially in the United States. But such "bubbles" cannot be made to order; and the collapse of any such "bubble" makes the formation of a new "bubble" that much more difficult, as potential speculators become more chary. "Bubbles" therefore can only play a transitory role.

It follows that under a neo-liberal regime there is nothing to ensure that there is growth of the world market; if it has been expanding it would continue to do so, but there is nothing to prevent a state of stagnation from continuing. In fact stagnation would be the equilibrium state of a neo-liberal world economy. The rate of growth of exports of any country therefore, unless it is prepared to play the game of stealing a march over other countries, that is, unless it is willing topursue "beggar-my-neighbour" policies, would doom that country to stagnation. Compared to this, a *dirigiste* strategy being followed by any country, with spending by its state providing an exogenous stimulus for growth, will achieve a faster rate of growth. A self-sufficient growth strategy therefore provides a higher rate of growth for any country (or a group of countries joined together in a union) than an export-led growth strategy in the absence of a "beggar-my-neighbour" policy.

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