

Suman Bery: Globalisation and social protection

Emerging economies have much to gain from global markets if they can handle the downside risks

Suman Bery / New Delhi January 12, 2010, 0:06 IST



As *The Economist* magazine recently observed, one of the most important and surprising outcomes of the current economic crisis is that the economies of the large emerging market countries have been much more resilient than those of the advanced countries, and are returning to growth faster and more vigorously.

These countries, particularly China, India and Brazil, accordingly are expected to continue to provide the bulk of world growth in the near future. This continues the trend of the past half decade, even if the rhetoric of “decoupling” was somewhat overdone. In turn, this trend parallels and reinforces another important structural trend in the global economy, the steady shift in the locus of economic activity toward Asia since the 1960s. This shift was initially centred on the reconstruction of Japan. In the 1970s, this spread to the so-called newly-industrialised economies of Korea, Taiwan, Hong Kong and Singapore, in the 1980s and 1990s to the larger Asean countries, and in the decade just ending, to China, Viet Nam and India.

These very large shifts in global economic activity over the past few decades have, in turn, entailed considerable flexibility in the domestic economies of these emerging markets, particularly in their labour markets, so as to respond to the new opportunities provided by increased integration with the global economy.

Perceptions differ widely on the success of this process. Protagonists of global integration point to the steady and widespread increases in average living standards of a broad swath of countries in the economically liberal post-War era, and the success of the developing world in reducing poverty despite large population increases. Critics, often in North-supported NGOs and academic institutions, are more likely to point to a range of pathologies, particularly associated with what is seen as the more extreme phase of globalisation that the world has entered since the 1990s. These pathologies include increased precariousness of employment and income, greater informalisation of work, rising inequality in income and asset distribution, and even environmental degradation.

Of course, these concerns are by no means restricted to the emerging markets. As far back as the mid-1990s, the then US President Bill Clinton observed that although globalisation was good for the economy as a whole, it was only sustainable politically if adequate support was provided to those who might lose out from it, even though there is abundant research that the main driver of restructuring in the US economy is technological change rather than trade. Against this background, are there any lessons that a poor, fast-growing emerging market like India has drawn from this crisis for the design of social policies for the future? The first point is perhaps the most obvious one, but it bears repeating: maintaining a policy cushion and reacting nimbly to crisis when it strikes is both superior and more feasible than trying to avoid the risks emanating from global integration.

India was fortunate that it had the policy space needed to ease monetary policy when the need arose. Similar space could have existed on the fiscal side but was squandered in early 2008 for electoral reasons, unfortunately leading to apparent political success. And, although I was not a great supporter of the build-up of foreign exchange reserves at the time, I am compelled to admit that the existence of a large stock of reserves, and the willingness to use them (in the last quarter of 2008) all contributed to an impressive policy response. Indeed, as has been pointed out by researchers at the Bank for International Settlements, by now India has significant experience in dealing successfully with external crises, although there remains scope for better policy communication.

A second point is that we actually have very poor measures of the quantitative impact of this crisis on the labour market, or indeed of most cyclical influences on labour market conditions. There are both conceptual and empirical reasons for this, in that open unemployment is not a realistic option for most of those likely to be affected in a cyclical downturn. Rather, the cascading effects are likely to occur in the vast reservoir of those involved in what we call informal work, or informal employment. While we certainly have episodic, anecdotal information based on small sample surveys, I am not personally aware of any systematic effort in India to gather data on labour market responses to cyclical fluctuations. Recently, the press has carried reports of an ad hoc effort by the labour ministry to survey those who have lost jobs owing to the export downturn. This effort, if successful, could perhaps be generalised. But before doing so, it would be important to be clear on exactly what policy interventions such data might trigger. A balance needs to be struck in reconciling income protection over the cycle with facilitating the adjustment in occupations that is inevitable and necessary in a fast-growing economy.

This then leads to a third point: the division of responsibility for smoothing consumption over a cycle, as between the individual household, or the state. The issues here are intricate, and an appropriate response will need to reflect a combination of national tradition, state capacity and risk management.

In my view, policy should be shaped by three core principles. First, the state has a primordial obligation to protect the nutritional status of vulnerable infants and young children. This suggests that maternal and child health and nutrition programmes should be those that must be protected and even expanded in times of stress.

Second, there is considerable evidence that “insurance” driven by decisions of the individual household is likely to be more efficient than insurance provided by the state. This implies giving considerable priority to programmes of financial inclusion with an emphasis on saving instruments just as much as the traditional concern for credit.

Finally, as an exception to the second principle, there are certain sectors (such as health care) where, for well-known reasons of market failure, it is preferable for the state to intervene between demanders and suppliers of services both as a regulator and as financier.

The emerging markets have even more at stake in sustaining the domestic constituency for globalisation as do the rich countries, but have fewer resources to play with. The scale of the unsustainable fiscal commitments that the rich countries have assumed in the areas of old-age pensions and health care serve as a warning of the need to think about long-term sustainability right at the beginning. This is a debate that has yet to begin.

The author is Director-General of NCAER and Member, Prime Minister's Economic Advisory Council