Leontief Prize Lecture

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Analogies can mislead, but also illuminate at times by providing fresh perspective to a complex problem. The analogy that comes to my mind is the law of gravitation for discussing the link between inequality and economic power. Inequality is visible, even statistically measurable in many instances, but economic power that drives it is invisible and not measurable. Like the force of gravity, power is the organizing principle of inequality, be it of income, wealth, gender, race, religion or region. Its effects are seen in a pervasive manner in all spheres, but the ways in which economic power pulls and tilts visible economic variables remain invisibly obscure. It defies direct empirical analysis, and has to be analysed through its effects.

Like attraction of gravity the exercise of power also needs more than one body. Almost in all cases of power it is expressed in different forms of domination of one body by another: the dominator and the dominated, the master and the slave, the king and his subjects, the coloniser and the colonised, the employer and the employee; relations of conflict and collaboration based on mutual dependence as well as antagonism. Forms change, the content remains more or less the same. In many instances as the domain of domination is extended the form becomes less clear. When colonial powers dominate a country, almost invariably it has collaborators in the country and there can be unintended benefits. The British created a middle class in India which largely collaborated with the ruling powers, and yet provided a window to much of modern knowledge. At the same time the colonisers intended suppressing traditional knowledge. This view of conflict and cooperation inherent in capitalism was brought out by a prey –predator economic model (Goodwin's use of the Lotka Volterra model,1967 which I was told was mentioned to him first by the biologist Haldane during the former's visit to the Indian Statistical Institute in Kolkata). In this framework, tigers (or capitalists) live on say rabbits (or wage labour). There would be an unchecked growth of rabbits unless tigers eat them , but if they eat too many, rabbits would be in short supply threatening the extinction of tigers. There is mutual dependence but it would be wrong to suggest that rabbits rather than tigers are the dominant power. In too many economics text books particularly in the U.S capitalists can hire labour and labour can hire capitalists in a 'perfect capital market', forgetting that mutual dependence does not rule out power relations. Like in a complex chemical reaction we have to isolate the relation of dominance. And, the general principle is to ask whether under different institutional arrangements, which of the two parties--the prey or the predator-- could survive.

Economic power is embedded in the Institutional arrangement and the ideology that is need to legitimises it. This theme will become clearer in the course of this lecture.

Since interaction between at least two persons is involved, it is a subject that cannot be satisfactorily dealt with within the framework of 'methodological individualism'. And, since the question of domination cannot be handled, it is changed to a question of differences in tastes and preferences of the individual in that framework (à la Garry Becker on race relations). Again it resembles the issue of mutual dependence. If I have a special taste not to have non-white skinned neighbours, the non-white skinned neighbour is welcome to have the taste of not wanting to have white neighbours! And yet, the crux of power relations lie in whose choice set permits what actions.

In the mainstream economic theory, interactions among rational isolated individuals are connected to one another only through prices and quantities in the market. They optimise, driven by their self-interests. If one were a true follower of Adam Smith, one would have made room for the society to have some influence through various social norms and 'moral sentiments' like trust, obedience to laws, enforcement devices for contracts etc. to ensure the viability of the market as an institution. However, with or without these social norms in the idealized market of economic theory individuals remain powerless except through their purchasing power derived from transactions with 'initial endowments'. Distributive inequality enters through the backdoor of endowments as a proxy for wealth, but the role of money vanishes as a store of value because uncertainty is banished by assumption. Without money only relative prices matter. They have the usual property that to affect how much is bought and sold in the market through exchange, but have the strange property of being given parameters for all individuals irrespective of whether they are affected positively or negatively by relative this price mechanism. Those who set the 'rules of the game' by organising the market and setting prices remain invisible like the force of gravity. So, like Voltaire's God, an auctioneer has to be invented to do the job of setting the market clearing prices. That invented God in the form of auctioneer also prevents people from trading at non-market clearing prices (to rule out out of equilibrium income effects). It is the story of an all-powerful auctioneer and powerless passive participants in the market.

The question of how prices are set is actually left hanging in the air as a gaping hole in the theory. It has to be so because to admit it, is to admit the raging bull in the fine china shop of well-crafted theory because it wishes to dodge the question of power. For those brought up in this intellectual tradition, this has set a mildly dissident research agenda for analysing 'market failures', and how wrong prices get set. The more traditional view used to be various imperfect market forms from 'monopoly power' to strategic interactions arising from competition among a few rivals and, frictions like transaction costs and high ‘menu cost’ of changing prices frequently. The theory of games is best applied when those few competitors strategize or bargain with one another but with their strategies or options predetermined.

The current wisdom on market failure has shifted attention to information as the strategic variable, where one participant has access to (or can manufacture) more information (or misinformation)than others, to enjoy the power of setting prices. This assumption is an anathema to market fundamentalists for whom prices are ‘public’ information available to all in a market. Market processes most efficiently all available information and present them as encapsulated current market prices to all participants without fear or favour. No individual participant can improve upon them. Being equally informed, one price for the same commodity must hold to rule out arbitrage, special information, inside trading etc.

However, the debate between market fundamentalists, and those who allow for the possibility of price failures under various characterisations of imperfect information (e.g. moral hazard, asymmetric information, adverse selection etc.) touches tangentially, but does not really face the question of economic power. To see this, let us put the problem in a more direct way. Suppose individual X would like to take the course of action1 not 2. However, individual Y has the power to dominate him by making him take action course 2 instead. The question of how power is exercised is usually explained by elaborating how Y manages to do it. If we leave out the obvious case of use of direct brute military force threatening X to fall in line, not because it is less important in reality(indeed very important in international relations), but because there is not much to discuss, we can proceed with subtler cases of information based power. Y might dissuade X by: (a) revealing more information to X than he had about the negative consequences of following his preferred action course 1(like a doctor explaining to the patient the likely consequences of smoking, or a scientist explaining the danger of nuclear war to a politician); (b) doing the same, but by misinforming him deliberately and dissuading him from taking his preferred course of action (especially important in our age of media, paid news and advertisements, not to speak of esoteric financial products). Both these relate to the information aspect. However consider a third case which is far more important for understanding the role of power in the economy and society. This is the case of(c) closing the option for X of following his preferred course of action 1. How this is done is the essence of the broader problem of characterising power. At the abstract level we are talking, institutions are social devices put in place not just to routinize actions, but to reduce the options or strategy sets of some and to expand that of others. More than anything else, the analysis of economic power is the analysis of institutions and their reinforcing ideologies that help in achieving this.

The most obvious case is when State power decides what is legal or illegal through the combination of institution and ideology. Institutions imposed by the state without consent of people have fragile foundation; it requires to be legitimised by an ideology. And, it is most robust and durable when the person for whom the option is being closed consents because she is not even aware of her possibility of undertaking certain actions are being ruled by that ideology. The example of how nationism is constructed as an ideology and how law is used to sanction what is anti-national is common to all nation states. However, which ideology guides a particular nation state becomes the bone of contention. The problem is not merely legal, because nationalism is for a group of people and, when they are divided and dominated by ideologies of class, caste, ethnicity or patriarchy, acting against such ideologies cannot be ruled out by law as anti-national. Yet, this is what is happening in India today on an increasing scale, and this is why I need to mention it.

However let me return to economic examples. Adam Smith propounded the ideology to justify the market as an institution which coordinated most effectively, decisions of individuals in a society with an elaborate social and technical division of labour. He provided an ideology for the existence of the market as an institution. For Marx the very same institution of the market had the role of making wage labour free from slavery or serfdom only to compel them into a situation for creating surplus for profit. This too was an ideology about the market. The tragedy is when you recognise one as an ideology but fail to see the other in the same light. There is a danger of dogmatism in assuming that the same ideology legitimises in all circumstances in the same way the institutional closure of options. The analysis of economic power has to be more varied and complex. Economics or any social science is not so privileged as to reduce all power relations to one cause. Marx probably came closest to it by identifying ownership of means of production as the institution and, private property as its reinforcing ideology. Together they define power relations. For example, the much greater inequality in ownership of wealth than of income tells us something about the ideologies that reinforce this process . However, the particular way of using ideologies to reinforce institutions needs modification in each concrete situation. I would try to illustrate this with two examples, one from developed (U.S.A) and one from developing(India) capitalism.

It is history now that liberalisation of capital markets from mid-1970s gave private traders in place of the state, unprecedented power to trade in increasing volume of foreign exchange. This was the beginning of the phenomenal growth of the financial sector, and by 1990s one significant segment of it more of less escaped the control of the central bank. Its trading operations were neither sufficiently supervised nor guaranteed by the central bank, the so called shadow banking sector for short which now exceeds in quantitative importance traditional banking. Instead of regulating the guiding ideology became self-regulation for the entire financial and particularly its shadow banking sector. Shadow banks were the institution and self-regulation was the ideology, and they reinforced each other by creating, and mutually guaranteeing among themselves through private insurance-like schemes various debt denominated securities to be sold as financial products. When this scheme collapsed, large players(mostly investment banks) were bailed out through infusion of public money by the government without however the government nationalising or even raising its stake in decision making significantly. The Ideology of self-regulation virtually without outside control continues with minor variations to date. Many of the financial institutions are flushed with liquidity injected in the rescue operation but not many avenues to lend for productive investment in a depressed economic situation. One easy avenue open to them is creating esoteric securities with high promised return and risk which find a market among the exceptionally rich. Their wealth grows partly on that account irrespective of the depressed economic condition in the real economy, widening economic inequality further. This example strikes me because the most inclusive political institution of majoritarian democracy has shown up that the political logic of 'one adult one vote' and the market logic of 'one dollar one vote' are not reconcilable, if economic power is increasingly concentrated in institutions of finance under the ideology of self-regulation. Indeed, this appears almost like a critical point in the trajectory of democratic evolution, as freedom of the market, amounts to freedom of rich financial corporations. An insignificant minority of rich individuals dominate the overwhelming majority in a majoritarian democracy.

However, my abiding research interest is not the misdoings of high finance through its increasing power in developed countries but in a developing country like India. How, despite overwhelming poverty of the majority, economic development as an ideology has been virtually equated with corporate led economic growth. A few among the economists are shame-faced about it, and want growth to be moderated by social welfare measures of the state; others are more forthright and support promoting unrestrained growth that might trickle down to the poor someday. Both hard liners and moderates dodge the real issue. Corporate led higher growth means providing stronger incentives to the corporations to invest which goes under the name of a 'more favourable investment climate'. Beyond the usual tax breaks and concessions to business(estimated as foregone revenue it is of the same order as all subsidies to the poor majority on an annual basis in India), the government has tried to offer more powerful incentives by giving land and natural resources at virtually throw away prices to private corporations. It displaces on a large scale people who lived on them. This development-induced displacement of some 0.6 million people per year is almost never of really privileged citizens, but of the poor 'adivasis', the original inhabitants of the country and, of the least privileged on the caste hierarchy, the Dalits in the countryside. According to more than one government report adivasis constituting about 8 per cent of the population but account for 40to 50 per cent of the displaced. This process, better described as internal colonisation rather than creative destruction, is let loose on poor people to promote the investment climate for large corporations. And yet, because of insufficient size of the domestic and external market (India is a systematic net importer with a negative foreign trade multiplier), corporation absorb through their employment only a small fraction of those displaced, but their high natural resource intensive technologies produce more output than is lost through displacement. For instance, if 10 persons each producing 2 are displaced from the natural economy and 5 find employment in the corporate sector with a labour productivity of 8, employment and livelihood possibilities have been halved but output has been double. This is the basic recipe of corporate led jobless growth, visible not in India alone. And, properly educated people in good schools are taught to accept this as the ideology of development and not question the dangerous obsession with higher corporate efficiency for international competitiveness which increases further unemployment. By infusing the institution of democracy with the ideology of higher growth without considering the fate of the majority involved is made politically correct. It results in a dangerous mutualism that develops between the private corporations and the government in the name of higher growth. The corporations become exceptionally rich as never before, because of natural resources transferred to them cheap. It increases their wealth at a rate that profit from production could never match. If privatization of state assets was Russia's way of creating most overnight dollar billionaires, India's way has been the pursuit of higher corporate led growth!(Russia stands 3rd and India 4th according to a recent count of exceptionally high net worth individuals). In India the large business houses return the favour through handsome donations to political parties to make contesting elections prohibitively high for ordinary citizens without support of a richly donated political party. In the competitive game of multi-party elections, all political parties irrespective of their political colour soon fall in line. The inclusive democracy of one adult one vote in a poor (wo)man's democracy is reconciled with economic power of corporations by price rationing out of the poor from any possibility of direct representation. Its result is a homogeneous mass consisting of many political parties with different colours. They are different in their rhetoric when in opposition, but same in action when in power. Choice is closed through the institution of democracy and the ideology of equating higher growth with development. As the empty shell of democracy hollowed out of its content and the march from corporate led industrialization to corporate led democracy continues unhindered. The need for intellectual work becomes more pressing not to glorify the institution of democracy and the ideology of higher growth in the name of nationalism, but to challenge them with well thought-out feasible alternatives.

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