

# *Book Reviews*

**Naqvi, Syed Nawab Haider.** *Development Economics: A New Paradigm.* New Delhi: Sage Publications. 1993. 208 pp. Indian Rupees 200.00.

In this book Professor Naqvi expresses his dissatisfaction with the attitude of economists, in general, towards the subject of development economics. His book rejects "the viewpoint that development economics is some brand of applied economics". From Professor Naqvi's perspective, development economics is a legitimate subject in its own right and should not be summarily treated as though its analysis can be handled by the ordinary tools of general economics. It should stand with welfare economics, econometrics, international trade, industrial organisation, or labour economics as a separate subject with some particular premises, conclusions, and methodology.

Development economics, according to Professor Naqvi, should be based on ethical considerations of such phenomena as poverty, distribution, and unemployment. In the study of general economic equilibrium, scholars have shown how the existence theorems establish conditions for Pareto optimality, but their assumptions are that income distribution is given, that technique is given, and that all conditions for perfect competition are met. While these are beautiful theorems with welfare economic implications, they do not serve development economics well because technological progress, evolving income distributions, and many market imperfections are typical features of the very process of development.

The societal view that does appeal to Professor Naqvi is Rawls' criterion that an economic system should be able to satisfy the needs of the least privileged individuals in the system. The distributional aspects of this criterion are obvious. There are also technological implications in the sense that a society may need dynamic progress in order to provide for the most needy. This is due to the fact that the world standard for the poverty line keeps rising.

Just as Professor Naqvi shows great admiration for the welfare implications of Rawls' concepts, he shows contempt for three main lines of thought in modern economics, namely, rational expectations, Friedmanite monetarism, and Laffer curves. This reviewer is also of a similar persuasion. Rational expectations are totally unrealistic, lacking in predictive power, and contrived to reach preconceived conclusions. Monetarism shows flashes of correlation with important targets of economic policy, but often breaks down, particularly at crucial moments. It is not a

satisfactory or reliable guide for economic policy. The Laffer curve, like the quantity equation underlying monetarism, is a truism that has little content for guidance of fiscal policy. There is no parametric specification and no way of using a construct to find a desired rate of taxation—only the obvious conclusion remains, that the rate should not be zero or unity if some revenue is to be collected. A formal curve is not needed to reach this conclusion. A developing country trying to make real progress is well advised to ignore such concepts as rational expectations, strict monetarism, and the Laffer curve. The list could well be lengthened.

In order to do useful work in development economics, Professor Naqvi would like to find or create a body of analysis that has empirical content and captures the benefits of technological change. Neoclassical economics by itself is not very good for providing the necessary analysis, but it may provide useful background, at least on a partial basis, for creating studies in development economics that do give some guidance about generating technological progress and using it beneficially.

In this respect, he finds a need for state intervention. While pure adherence to the principles of neoclassical economics may suggest the establishment of free markets in a setting of perfect competition, with minimal or no state intervention. But education, which is accepted by many, almost axiomatically, as the province of the state can be the fountain head of technological progress in the sense of improving the quality of human capital. This calls for a judicious mixture of market and state decision-making. The precise mixture cannot, however, be arbitrarily set in advance. Professor Naqvi finds that developing economies with a high degree of state intervention have progressed quite well—not in every case, but in several.

In his view, India and Pakistan have done well, economically, since independence. Their performance has certainly been much better than many economists thought possible at the time (1948). State intervention was not counterproductive and in 1993, growth prospects look promising. This is the case not only for India and Pakistan, but also for developing countries as a whole. They have been and are expected to continue outpacing most other countries in terms of economic growth.

The newly industrialised economies, especially those in East Asia look very impressive at this time, and they did not achieve their success by following only the path laid out by the "invisible hand". State guidance has been very important for South Korea, Taiwan and other successful economies of East Asia. Professor Naqvi takes issue with those economists who would cite the Republic of Korea as a showcase economy run by the principles that lead to Pareto optimality. This, he argues, is not the case, for there are well-known instances of government intervention in the economy and the prevalence of much imperfect competition in Korean markets. He does, however, misjudge the Chilean experience. He cites this case as one of an economy that "...pushed privatisation to its limits but has not done very well economically." At this time, Chile rivals many of the star performers of East Asia.

What the analysis suggests to me, as an outsider among development economists, is that it is very difficult to generalise about the reasons for the progress of all developing economies. There are always some cases that prove to be exceptions to any rule.

What should replace Pareto optimality in development economics? Professor Naqvi argues that the subject can usefully draw from the Keynesian Revolution. Of course, Keynesian theory should not, in this context, be interpreted narrowly as dealing with short-run maladjustments that can be corrected by combinations of fiscal and monetary policy, but should be an open Keynesian system generalised by Harrod-Domar growth, by Leontief's treatment of technology at the inter-industrial level, and by a total marriage of the supply and demand sides of the economy.

Professor Naqvi's system would have sectoral balance, details of labour markets, endogenous demographics, many distributional aspects, and would also pay attention to ethics.

He likes the Human Development Index (HDI) as generated by economists at the United Nations Development Programme. It can serve as a measure of development even though it is presently in its early stages of refinement and quite controversial. He looks upon the research effort behind the HDI as constructive and trying to produce tools of use for development economics.

Liberalist philosophy, in this book, is the target for Professor Naqvi. It has sought to pull down the welfare state, allows high unemployment, fails to deal with widening inequality—both among individuals and states. These are seen as retrogressive aspects of much in modern economic thinking, and a valiant attempt is made in this book to steer development economics back to a useful path of thought that will produce a "New Paradigm", which is yet to be sharply defined and elaborated in detail. At any rate, this book makes an excellent case for the continuing status of development economics as a separate self-contained branch of economics.

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