

PATHWAYS TO A MORE RESILIENT ECONOMY

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

When complex systems come to catastrophes, i.e. critical points of instability, they re-emerge in distinctly new forms, according to the science of complex systems. The [COVID-19 global pandemic](#) is a catastrophe, both for human lives and for economies. Economists cannot predict in what form the economy will emerge from it.

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Machines do not have the capacity for emergence. Once built, their capabilities inevitably reduce with increasing entropy. On the other hand, living systems evolve and acquire new capabilities over time. Fritjof Capra and Pier Luigi Luisi point out in *The Systems View of Life: A Unifying Vision* that among all living species, humans have a special ability. Only humans consciously develop new concepts, new scientific ideas, and new language in their search for new visions. Institutions of governance are human inventions for directing human endeavours and for providing stability. Thomas S. Kuhn explained in *The Structure of Scientific Revolutions* why new ideas are invariably resisted by prevalent power structures in societies. The scientific establishment determines which ideas are worthy of admission. The King's advisers do not want outsiders to dilute their influence in the court. The Establishment resists change. Therefore, fundamental reforms of ideas and institutions in human societies are always difficult, until a crisis.

The COVID-19 catastrophe has challenged the tenets of economics that have dominated public policy for the past 50 years. Here are seven radical ideas emerging as pathways to build a more resilient economy and a more just society.

i) "De-Growth". The obsession with GDP as the supreme goal of progress has been challenged often, but its challengers were dismissed as a loony fringe. Now, Nobel laureates in economics (Joseph Stiglitz, Amartya Sen, Abhijit Banerjee, Esther Duflo and others) are calling upon their profession to rethink the fundamentals of economics, especially the purpose of GDP. A five-point 'de-growth' manifesto by 170 Dutch academics has gone viral amidst the heightened Internet buzz during the lockdown. Goals for human progress must be reset. What should we aspire for? And how will we measure if we are getting there?

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ii) Boundaries between countries are good. Boundary-lessness is a mantra for hyper-globalisers. Boundaries, they say, impede flows of trade, finance, and people. Therefore, removing boundaries is good for global growth. However, since countries are at different stages of economic development, and have different compositions of resources, they must follow different paths to progress. According to systems' theory, sub-systems within complex systems must have boundaries around them, albeit appropriately permeable ones, so that the sub-systems can maintain their own integrity and evolve. This is the explanation from systems science for the breakdown of the World Trade Organization, in which all countries were expected to open their borders, which caused harm to countries at different stages of development. Now COVID-19 has given another reason to maintain sufficient boundaries.

iii) Government is good. Ronald Reagan's dictum, "Government is not the solution... Government is the problem", has been up-ended by COVID-19. Even capitalist corporations who

wanted governments out of the way to make it easy for them to do business are lining up for government bailouts.

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iv) The “market” is not the best solution. Money is a convenient currency for managing markets and for conducting transactions. Whenever goods and services are left to markets, the dice is loaded against those who do not have money to obtain what they need. Moreover, by a process of “cumulative causation”, those who have money and power can acquire even more in markets. The “marketization” of economies has contributed to the increasing inequalities in wealth over the last 50 years, which Thomas Piketty and others have documented.

v) “Citizen” welfare, not “consumer” welfare, must be the objective of progress. In economies, human beings are consumers and producers. In societies, they are citizens. Citizens have a broader set of needs than consumers. Citizens’ needs cannot be fulfilled merely by enabling them to consume more goods and services. They value justice, dignity, and societal harmony too. Economists’ evaluations of the benefits of free trade, and competition policy too, which are based on consumer welfare alone, fail to account for negative impacts on what citizens value.

vi) Competition must be restrained: Collaboration is essential for progress. Faith in “Darwinian competition”, with the survival of only the fittest, underlies many pathologies of modern societies and economies. From school onwards, children are taught to compete. Companies must improve their competitive abilities. Nations too. Blind faith in competition misses the reality that human capabilities have advanced more than other species’ have, by evolving institutions for collective action. Further progress, to achieve the Sustainable Development Goals for example, will require collaboration among scientists in different disciplines, and among diverse stakeholders, and collaboration among sovereign countries. Improvement in abilities to share and govern common resources have become essential for human survival in the 21st century.

vii) Intellectual property belongs to the public. The earth’s resources must be conserved. We are living in an era of knowledge. Just as those who owned more land used to have more power before, now those who own knowledge have more power and wealth than the rest. Intellectual property monopolies are producing enormous wealth for their owners, though many were developed on the back of huge public investments. Moreover, powerful technologies can be used for benign or malign purposes. It is imperative to evolve new institutions for public ownership of technologies and for the regulation of their use.

The paradigm shift necessary after the crisis will not be easy. There will be resistance to shifts in social, economic, and political power towards those who have less from those who have more within the present paradigm.

The financial crisis of 2008 was a crisis of liquidity in the system. Recovery was achieved by putting more fuel into the system. The system then moved on; in basically the same shape it was before. COVID-19 has revealed structural weaknesses in the global economy. Putting fuel in the tank will not be sufficient. The vehicle must be redesigned too. While global attention understandably is focused on relief and recovery, this is the time to design for resilience.

The economic system cannot be redesigned by domain experts devising solutions within their silos. Such as, trade experts recommending new trade policies, intellectual property experts recommending reforms of intellectual property rights, and industry experts recommending industry policies. All the pieces must fit together. Most of all, they must fit into the new paradigm, which will be very different to the one in which the experts had developed their domain knowledge.

Innovations are required at many levels to create a more resilient and just world. Innovation is essential in the overall design of the economy. Innovations will be required in business models too, not just for business survival but also to move businesses out of the 20th century paradigm that “the business of business must be only business”. Changes will also be necessary in our life patterns, our work and consumption habits, and in our personal priorities.

The redesign of economies, of businesses, and our lives, must begin with questions about purpose. What is the purpose of economic growth? What is the purpose of businesses and other institutions? What is the purpose of our lives? What needs, and whose needs, do institutions, and each of us, fulfil by our existence?

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