'India Shouldn't Count on US' Growth Revival'

14/1/14

Following any global template blindly would be a mistake, says Joseph Stiglitz

SHAJI VIKRAMAN & TK ARUN
MUMBAI | NEW DELHI

The world is still a market for lemons, when it comes to financial regulation, finds Joseph Stiglitz. While the financial crisis of 2008 served to demonstrate that the theoretical insights on how and when markets fail (such as the ones yielded by his own research) are terribly important for the practical world, subsequent efforts to repair the regulatory system remain patchy, he says.

Prominent advocate of discontent that he is, Stiglitz had a good word to say about very few things. Strangely enough India's National Rural Employment Guarantee Scheme figured in that small set for its contribution to raising rural wages and lowering poverty besides its original goal of preventing distress in times of low demand for farm labour.

Speaking to ET on the sidelines of a conference Centre for Advanced Financial Research and Learning in New Delhi, the Nobel laureate in economics said that five years after the world's worst financial crisis in recent times, there are many issues which are to be fully addressed. These include the continued existence of institutions which are too big or too correlated to fail or are too big to be prosecuted; not enough being done to bring shadow banking under the regulatory architecture or to curb the excessive bonuses of bankers.

Although globally policy-makers have raised capital requirements for banks, it wasn't fast enough. "We haven't had a simple regulatory regime. Rather, we have a complex regulatory regime which allows banks to take advantage," he said.

Emerging markets like India have to figure out how to do effective regulation on their own. Following any global template blindly would be a big mistake. Stiglitz said that one has to be mindful about a one-size-fit approach to regulation. "The US is a reserve currency country. China has $3 trillion of reserves and so you can get away with some mistakes. But that is not the case for many other emerging markets. So, one has to be mindful of the regulatory regimes for such markets."

Emerging markets such as India should not count on the revival of growth in the world's biggest economy — the United States — as the basis of a recovery as it may be muted and the potential benefits may not be enough to offset the negatives, according to him.

EMPLOYMENT SCHEME

India's employment guarantee scheme — MNREGA — was a conceptually good programme and a good innovation that was implemented in many states

Economic forecasters, besides multilateral agencies such as the International Monetary Fund, are revising their growth estimates for the US economy for 2014. With a rebound in manufacturing output, there are expectations that the US economy could expand at a faster pace in 2014. But Stiglitz, while conceding that growth this year in the US will be better than a year ago, said it is not a stellar performance as the jobs data shows that there are not enough jobs for new entrants.

The other major worry is a concern about corruption in many countries, he says. One of the negative consequences has been policy paralysis including India. There should be scepticism about the benefits of liberalisation as those pitching for it have vested interests, he said. "We can't have disinterested decision-making by those who have been captured." According to Stiglitz, a major force of inequality in the US is rent-seeking.

"You have drug companies getting a special provision from the Congress and weakened social progress." India's employment guarantee scheme — MNREGA — was a conceptually good programme and a good innovation that was implemented in many states, he said. But what matters when it comes to equality are economic policies. "India has done something to remove poverty but as in the US, in India too, wealth at the top was appropriated," he says.

shaji.vikraman@timesgroup.com