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The need for a consumption-led growth strategy

The current trickle-down economics is not working for the masses of the population. We need to transform workers into consumers to broaden the market

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Highlights

- *Even high real GDP per capita does not automatically eliminate poverty and deprivation*
- *Market concentration is increasingly the norm*
- *The trickle-down growth strategy has not worked for the masses*
- *There is a chronic shortage of effective demand because the size of the market is limited*
- *A more equitable development strategy is needed*
- *The working class must be transformed into consumers in order to achieve growth and development*
- *In India, state interventions through universal basic income or job guarantee programs will have to play an indispensable role*

India's GDP growth rate of just 4.4 percent in Q3 FY2023 has once again brought to the fore the challenges to sustain a high growth trajectory over the next few decades, in order to catapult the economy into not just the top three economies of the world but more importantly, also as a truly formidable country in terms of real GDP per capita. More daunting, however, is the growing concern not just in India but the world over that even high real GDP per capita does not automatically eliminate poverty and deprivation given the growing inequalities in the distribution of income and wealth as well as market concentration in industry.

The decades after the Second World War until the 1970s were seen as the Golden Age of Capitalism in the western world. Unlike what conventional economic theory endorsed, the Austrian economist Joseph Schumpeter characterised the market structure as 'corespective competition', wherein cut-throat (perfect) price competition is avoided to ensure high profits. Simultaneously, disruptive technologies that could derail investment decisions are introduced gradually by competing firms after tacit coordination. This period also witnessed strong institutional bargaining by labour unions and a proactive welfare state, which led not only to the share of labour in **GDP increasing** from about 65 percent in 1949 to about 73 percent in 1969 in the US but also a robust rise in investment spending that coalesced into a period of strong demand, high growth, low inflation and low unemployment.

It seems impossible to expect a return to the Golden Age; the shift to a neoliberal economic world order over the last four decades has rendered it so. This is especially true for emerging economies like India where the consensus is that structural reforms in the early 1990s have indeed led to the massive creation of wealth, benefiting millions of its people. The future course of policy will in all probability continue on the same path with calls for even bigger structural reforms. Nonetheless, the challenges of market concentration and growing inequalities in the distribution of income and wealth remain, perhaps even worsening over the years. With economists offering inadequate policy guidance in addressing these issues, macroeconomic discourse has focused on **GDP growth or the production of wealth**, hoping that its benefits percolate to the wider population through the 'trickle-down effect'.

Increasing market concentration is a difficult issue to deal with, structurally. This essentially arises from the fact that technology is driving industry towards larger scale with space for only a few players. In other words, a monopolistic or oligopolistic market structure is needed in order to remain competitive whereas economic theory argues that the market system is efficient only when (perfect) competition thrives. Although the solution to this was economic regulation, it is evident that if a country has to remain globally competitive, expansion of scale by industry cannot be restricted. Regulators today, therefore, focus less on the concentration ratio *per se* and instead turn their lens on the *abuse* of monopoly power.

Technology and innovation are nonetheless seen as beneficial, resulting in productivity increases that can improve standards of living. Unfortunately, data shows that increase in productivity has not resulted in the proportionate growth of real wages, thereby leading to deficient aggregate demand. The gap is made up by credit. It comes as no surprise then that household debt to GDP ratio in India now **stands at** some 38 percent, up from just 12-13 percent a few years ago. This makes growth unstable especially when the private sector deleverages; a lesson that the 2008 global financial crisis taught us. The chronic structural deficiency in aggregate demand that reveals its ugly head in times of credit deleveraging by the private sector has also led to the secular stagnation and even decline of private sector investment spending, as many economists including Larry Summers and Paul Krugman have pointed out.

Interestingly, a few US economists and labour activists between the late nineteenth and early twentieth century who belonged to what is called the 'New School' – including unfamiliar names like Ira Stewart and George Gunton – had grappled with similar dilemmas of those tumultuous times. Their insights, which in many ways are a precursor to Keynes', could (re)centre the contemporary issues of scale, concentration and inequalities in macroeconomic debates.

The New School economists not only favoured large industry to leverage economies of scale but, at the same time, also argued for a substantial rise in real wages to solve the chronic underconsumption problem that had arisen from low wages and mass production. While an export-led strategy could provide a temporary solution to domestic underconsumption (as China pursued in its high growth phase), in the long run a sustainable and fair answer to the problem is to ensure that the domestic working class is capable of purchasing the output with rising real wages rather than through recourse to higher levels of household debt.

To the New School economists, increasing consumption and developing a consumerist society is vital for sustained growth. Unfortunately, most managers are prone to the fallacy of composition wherein they view wages as a cost, which must be suppressed for higher profits. Instead, wages must be seen as a benefit with expanded markets, greater sales and higher profits that can enhance and stabilize real investment spending by the private sector.

In the realm of policy, the state could adopt consumerism or a consumption-led strategy, which explicitly includes both growth in production of output by adopting technology and scale *and* greater equality in distribution of the output through higher real wages of the working class. Consumerism must therefore be viewed as a means of *social reform* in which the working class are transformed into consumers in order to achieve growth and development, and not narrowly in the sense of an advertising strategy of business. The state must actively engage in the formulation and implementation of public policies to assist the process through appropriate taxation frameworks, greater job security, passing of minimum wage laws as well as shortening the working day/week so as to provide workers with more leisure time to boost consumption.

An economy of poorly paid gig workers or casual labourers with no job security and long working hours cannot form the basis of a consumerist society. Few may be aware that the eight-hour working day – which is now universally accepted as the norm – was actively pushed for by New School economists and ultimately implemented in the US through the passing of the Adamson Act in 1916. The measure was adopted not only because it would benefit workers but by providing them with greater leisure time it would increase consumption demand, which advanced the interests of the capitalists with greater sales and profits, and more generally of the nation from higher investment spending and GDP growth.

India, however, faces its own challenges in its transformation into such a consumerist society: the existence of informal sector, short-run inflationary pressures and the more recent phenomenon of jobless growth. State interventions through universal basic income or job guarantee programs will have to play an indispensable role in the transition to a sustainable consumption-led growth strategy.

There may still be some lessons to be learnt from the ‘New School’ economists and the ‘Golden Age of Capitalism’.

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