Globalization Commentaries

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Post-Crisis Economics: Are We All Structuralists Now?

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In the immediate aftermath of the global financial crisis even the deepest market fundamentalists embraced the core Keynesian insight that when in deep recession, monetary policy will be ineffective and fiscal stimulus is required. They have now abandoned that view as calls for fiscal austerity abound regardless of the increasingly fragile nature of the global recovery.

While economists and policy-makers debate the short and medium-term remedies to the crisis, there is an incredibly surprising and under-discussed consensus emerging for the longer run. From the Financial Times to the South Centre there is agreement that the United States and East Asia (notably China) have to change the 'structures' of their economies.

The US has to stop over-consuming on credit and actually produce things for export again. East Asian nations have to slow down their over-reliance on exports and increase domestic consumption. Another way of putting it: the key actors in the world economy need to undergo structural change.

So are we all structuralists now?

In a new book, Growth and Poverty in Developing Countries, which serves as an overview and contemporary renewal of "structuralist macroeconomics," Jose Antonio Ocampo, Codrina Rada, and Lance Taylor define "economic structure" as the "composition of production activities, the associated patterns of specialization in international trade, the technological capabilities of the economy," and so forth. The goal of development, to structuralists, is to transform the structure of both domestic and international economies to enable the developing world to "catch-up" to higher income nations.

The founders of structuralism are seen as Hollis Chenery and Raul Prebisch, who drew on the work of classical economists Smith, Mill and Marx. Structuralism also draws heavily from Keynes, Kaldor, (Joan) Robinson, Hirschman, and Schumpeter. The book by Ocampo et al, is the first concise and contemporary treatment of structuralism and is a must read for students and practitioners of the world economy.

There may be an emerging similarity of diagnoses of the world economy that one could term structuralist but the remedies proposed continue to diverge along predictable lines.

If you listen to the US government, mainstream US economists, and some organized actors in civil society, the rebalancing will occur if China rapidly appreciates its exchange rate and the US signs a flurry of free trade deals. We don't have to look too far back to see what happens. Between 2005 and 2008 China's currency appreciated by 21 percent and a rash of trade deals with Chile, Central America, Peru and elsewhere went into effect. During that time the US current account deficit increased and the US became ground zero of the worst crisis since the Great Depression.

Yilmaz Akyuz of the South Centre, in a recent study, offers a better view that may be slowly gaining ground in Asia. China and other East Asian nations should change the structures of their economies by increasing wages and re-focusing industrial policy toward higher value-added goods to spur domestic demand.

There are signs that China is inching down that path. China has already put its exchange rate back on a gradual course of appreciation. In the past month most of China's manufacturing centers have raised the minimum wage, some by up to 48 percent. Also this month China initiated a green car subsidy program whereby car companies get a subsidy for producing cleaner cars for the domestic market. The latter program is an industrial policy that will not only spur domestic demand and increase the technological capabilities of Chinese manufacturers, it will also help reduce pollution in China which is estimated to cost the nation at least 3 percent of GDP on an annual basis and of course contributes to global climate change.

Structuralism at its core is a set of theory and policy for macroeconomics, and here too many nations are now borrowing policy tools from the structuralist toolkit. Russia, Venezuela, Brazil, China, Indonesia, Taiwan, Argentina, and South Korea, among others, have all deployed capital controls of one form or another since the crisis hit. Ilene Grabel points out the rationale for this and refers to them as the 'new normal' because such tools have even recently been advocated by the IMF and other international financial institutions which once shunned capital controls.

It is quite a stretch to say we are all structuralists now. But there is a broad agreement that the current structure of the world economy has to fundamentally change. Many nations, primarily in Asia but some also in Latin America are drawing from the structuralist toolkit to address these problems. Such tools could become the "new normal." It remains to be seen if the US can match its proper diagnosis with a proper set of policies.