2018 Nobel Prize in Economics - Relevance for India

What is the issue?

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The ideas of this year's Nobel Memorial Prize in Economic Sciences are relevant for India in terms of handling its growth.

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What were the prizes awarded for?

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- The Nobel Prize for this year has been awarded to two economists in two different fields.
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- William Nordhaus has worked on climate change and economic growth.
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- It is more on the 'negative spillover' of emissions and damage to the environment as a result of growth.
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- Paul Romer had worked on innovation and growth and is on the 'positive spillovers' of knowledge and technology.
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- Notably, both works were related to economic growth.
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What are the key ideas of Nordhaus?

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- **Observation** - As the world strives to bring about high growth, it tends to damage the environment.
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- This, in turn, comes back to haunt people and retard future growth.
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- E.g. land gets less fertile due to excessive use of fertilisers and overgrazing
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- Carbon emissions affect health, damage the ozone layer, cause erratic rainfall, affect ocean life, etc.
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- **Measures** - Nordhaus hence spoke of 'DICE' ('Dynamic Integrated model for Climate and Economy') as the way forward.
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- The obvious solution is a carbon tax, which is now quite popular in the world.
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- It discourages emissions or makes entities use better technologies that lower such emissions.
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- **Concerns** - The problem here is that countries, at times, make such compromises for short-term gains.
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- Also, the externalities caused by damaging the environment are often assumed to be everyone's problem and not just that of the nation.
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- Given this, carbon tax is a softer option that may not really bring an end to the polluting process.
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- It only increases the cost of damaging the environment, which will be passed to the consumer.
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- **Way forward** - Outright bans are the only way out.
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- There should ideally be ban on the use of certain material or technology that damages nature.
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- Importantly, this should be agreed upon by all the countries.
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- It is important here for government intervention as the market system is less likely to ensure such a solution.
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What are the key ideas of Romer?

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- **Argument** - Romer talks of a positive stimulus to growth, which is based on knowledge or technology.
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- This is logical because across countries technology has been the differentiating factor in the strategies pursued for higher growth.

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- Evidently, going by this, the African countries remain slow-movers in terms of growth.
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- The East Asian economies were able to gallop on the back of innovation.
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- In fact, a lot of progress in India can be attributed to innovation.
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- E.g. the Green Revolution in agriculture, the IT revolution, etc
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- An interesting observation by Romer is that when technology brings about growth, it is non-exclusive.
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- This is because the benefits do percolate to other companies and countries.
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- **Measures** - There is thus the need for Research & Development subsidy to be given by governments.
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- The power of new ideas is quite supreme and cannot be contested.
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- So here, one can leave it to the market to drive such innovation as it is intrinsic to the business models that focus on growth.
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What are the apprehensions?

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- The works of the two winners raises a key question regarding the link between technology and climate change.
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- For innovation to succeed, it is hard to ensure that such technology is consistent with sustainable growth.
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- E.g. the technology of mobile phones has brought in a broader debate of radiation emissions
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- Here the tenets of Nordhaus and Romer would collide.
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- Another concern is that if technology which becomes labour-displacing can really lead to meaningful higher growth.
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- Addressing this is crucial especially in labour-surplus economies.
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- Also, the practical feasibility of innovations in several countries in Africa and South Asia where there is power shortage is uncertain.
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What could be done?

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- For India, the ideas of both these economists are very relevant.
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- Innovation must be tailor-made to suit local requirements so that it does not disturb the ecosystem.
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- When talking of inclusive growth and creation of jobs, the focus has to be on using innovation in a balanced manner.
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- The climate change issue is more challenging; there needs to be internal rules to ensure that environment is protected.
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- Laws need to be in place to ensure that there is a proper balance of technology with carbon emissions.
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Source: Financial Express

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