The Past and the Future of Economics in India: In Search of Lost Time[1]

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Economics, deservedly or not, prides itself on being the most rigorous of the social sciences. This reputation has made it an attractive discipline to some of the best minds in developing countries, as they sought to tackle the problems of development. India seems to have been particularly well-endowed with economists, and they have been common in the corridors of power in New Delhi, as well as in the groves of the academy, from Calcutta all the way to Berkeley.

As economists East and West have recently rediscovered, the problem of understanding the process of development and economic growth is **the** fundamental issue in economics. In 1776, Adam Smith wrote "An Inquiry into the Nature and Causes of the Wealth of Nations". In the 19th century, Ricardo and Marx added to our understanding of the workings of the capitalism that had begun to develop in the Renaissance, and that had risen to dominance with the Industrial Revolution and the spread of colonialism.

Marx, with his sweeping view of history, of colonialism and of class struggle, found a sympathetic readership in the first Indian economists of the 19th century (though this name for practitioners of the discipline perhaps came later). Ramesh Chandra Dutt and Dadabhai Naoroji were among the economists who made a convincing case, based on Marxian-style analysis, that India had suffered great economic harm as the "jewel in the crown" of the British Empire. The majority view during the struggle for independence was that India had not been allowed to develop (for which, read industrialize) appropriately under colonial rule. A significant minority (more non-economists than economists), however, were taken by the nostalgic Gandhian ideal of a village-based Ram Rajya that rejected industrialization explicitly.

Here let me interject an economist's thoughts on this issue. Civilization is built on relaxing scarcity. And relaxing scarcity is built on specialization. The Gandhian vision of a rural idyll is one of voluntary, pervasive poverty. If one rejects poverty, one must accept industrialization and development. How one does it - the exact path taken - is a separate question. For example, there are legitimate concerns about sustainability of development and industrialization. In this regard, as well as in his advocacy of decentralization, Gandhi was much more on the mark than in his rural nostalgia.

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[1] This is a slightly revised version of a talk delivered at the UC Berkeley Annual South Asia Conference, February 14, 1998. I have taken the opportunity to clarify and correct a few points, based on the comments of Pranab Bardhan and Ramachandra Guha, but neither of them is responsible for remaining shortcomings, or for the opinions expressed here.

To return to the story, India's independence in 1947, was rightly viewed as a golden opportunity to catch up to the West, after throwing off the shackles of British rule. India and Pakistan were the first laboratories for a new economics of development. Like independent India, this golden opportunity has now also celebrated its golden anniversary, and is still unrealized. What went wrong? And how much can we blame all those methodologically arrogant economists?

The vision for India's development in 1947 came from Jawaharlal Nehru, who was not an economist, of course. The implementation (and some novel ideas about modeling the economic constraints) came in great measure from P.C. Mahalanobis, who, strictly speaking, was a statistician -- but economics and statistics often interbreed, producing that challenging offspring, econometrics. In any case, the role model for both was the Soviet Union, which had successfully developed through planning and pushing heavy industrialization.

I think it is fair to say that, through the nineteen fifties, this model was reasonably successful in its gentler Indian application. There were no purges, no mass starvation. The country did not break apart. And the economy grew steadily, at a rate much faster than in colonial days, 3.5 per cent a year (what Raj Krishna so memorably later termed "the Hindu rate of growth"). Agriculture was not neglected, if not particularly favored. There was a fair amount of consensus among economists, I would hazard, that the mix of policies was about right. I am sure there were some disagreements, about matters such as agricultural pricing, the lack of effective land reform, and what to do about the plight of the poorest in India's villages. But I think it is also fair to say that some of these kinds of disagreements reflected differences in value judgments, and not technical issues of economic policy.

However, I think this picture of consensus between prescription and practice begins to change in the nineteen sixties. And I think it has nothing to do with the members of the economics profession in India, unless one faults them for lack of persuasive power. The nation of India is a compromise - a continuing series of compromises - across regions and religions, castes and classes, ideas and ideologies. Nehru won, but Gandhi had to have a place. Early on, the independence-struggle-era's Gandhian political weapon of self-reliance became ossified in subsidies and protections for handlooms. Protection was extended to small-scale industries in general: "big business" could not encroach on their domain. Amartya Sen, one of India's economic stars, wrote his first major piece on the "choice of technique", while a young student at Cambridge in the fifties. In this work, he showed the inefficiency of Indian policies with respect to handlooms. This kind of analysis had no policy impact that I am aware of. To be fair to Gandhi, this is not the whole story. Socialists also preached their own brand of self-reliance, and the lording of the Brahmin over the Bania also played its role in government policy. But the entrenchment of politics, with its resistance to economic reasoning, is the main lesson here.

My view is that this pattern was repeated through the nineteen sixties and seventies. The policy regime of planning took on an unhealthy life of its own, as India became the full-fledged "license-permit raj". Populist politics dominated policy decisions. Prominent Indian economists criticized the excesses of this system. Examples include Jagdish Bhagwati and Padma Desai on the planning process, Bhagwati and T.N. Srinivasan on the foreign trade regime, and the Hazari Committee Report on the anticompetitive effects of industrial licensing. There may not have been unanimity among economists about policies such as import substitution, but I think the best and brightest of the profession in India started to become irrelevant in this period of political populism of a most pernicious kind. Pranab Bardhan has provided a masterful analysis of the "Political Economy of [Non-?!] Development in India", and I urge all those who haven't read it to do so: a new edition is due to be published soon!

There were bright spots in this picture: agriculture, thanks to new technology, eager farmers, and judicious government support, began to make gains in the sixties. But the economy sputtered along, growing at what is better called the Nehruvian - not Hindu - rate of growth, while some of East Asia was undergoing its miraculous period that has (despite all the recent commotion about its financial crisis) brought it far ahead of India in standards of living.

There is still a live and lively debate on the causes of the East Asian miracle, but I think that it is accepted that the state played some role. For that matter, the state in Europe, or even in America, does positively influence the economy. When confronting India's failures in the sixties and seventies, it is important to realize that the issue is not "state vs. market", or the degree of state intervention along some one-dimensional conceptual continuum. There are many dimensions. The state does some things better than others. It may do nothing very well, but it may still be better than the market in some spheres of the economy. And, even if it does not "govern the market" (to use Robert Wade's phrase describing East Asian experience), it certainly "enables the market", through the maintenance of law and order, and through a judicial system that enforces contracts. The state also provides safety nets for the unfortunate, physical infrastructure, and, sometimes, social-order-preserving redistribution, all through a system of taxation and expenditures. I think this role of the state has been well understood by economists since Adam Smith, though the details have undergone a significant transformation, as economies and financial systems have grown in complexity over the last two centuries. And I think the positive role of the state has been well understood by Indian economists, from the generation of Bhagwati, Sen and Srinivasan, to my own contemporaries, such as Kaushik Basu, Bibek Debroy and Dilip Mookherjee.

Perhaps this point gets lost due to the nature of the situation that India found itself in during the nineteen eighties. When government is doing too many things badly, and spending too much doing it, the natural initial policy reaction is, perhaps, to get out of some of the worst activities (stultifying and illogical controls on trade and industry, as well as enormously inefficient state enterprises), before trying to fix the things it should be doing anyway. So the emphasis from Indian economists in the eighties and early nineties on rationalizing the role of government has looked very much like just a reduction in the role of the state. But economists like Basu, Debroy and Mookherjee have articulated the case for more effective government, in spheres where government ought to be important, such as law and institutions. And Sen, Jean Dreze, and numerous other economists have refined the case for government support of health, education, and other "basic needs".

Whatever one thinks of Rajiv Gandhi's "computer boys" of 1984, and the succession of politically precarious governments that India has had since 1989, I think the return of the technocrat to the corridors of power in this period has been a welcome one. Economists such as Ashok Desai, Montek Ahluwalia, and, of course, Manmohan Singh, have brought a diversity of experience, an awareness of past policy mistakes, and a refreshing pragmatism to economic policy-making that bodes well for the future. And, thanks to the wave of decolonization that began with India in 1947, but crested only in the 1960's, we now have much more data on what works and what doesn't in development policy than we did fifty years ago.

"In Search of Lost Time", my subtitle, might be taken as a Proustian reference, to a fondly remembered golden age of Indian economists. That is how I first thought of it. But now I don't think there ever was such a golden age. I think it is only now that India's economists have a chance to shape the country's destiny in a meaningful way, because it is only now that the polity might permit it (though not all economists are as sanguine as I am -- again see Bardhan's latest analysis). In any case, the "Lost Time" is really that of two generations of Indians whose life expectancy, literacy rates and standards of living are not where they could and should be today. All those earnest, model-building economists may not be completely blameless, but I think they have done more good than harm, and will do India more good still if politics and politicians permit.