

CONFERENCE ON

**BEYOND THE WASHINGTON CONSENSUS: GOVERNANCE AND THE
PUBLIC DOMAIN IN CONTRASTING ECONOMIES -
THE CASES OF INDIA AND CANADA**

The Economic Reforms: Short and Long Views

by
H.K. Manmohan Singh
Emeritus Professor of Economics, Punjabi University

Robarts Centre for Canadian Studies, York University, Toronto
Institute for Studies in Industrial Development, New Delhi
Centre for Research in Rural & Industrial Development, Chandigarh

February 12-14, 2001

The Lord prefers common-looking people. That is the reason
He makes so many of them.
Abraham Lincoln

The Prime Minister's New Year address contains both his vision of emerging India and the direction in which politics and governance ought to be steered to achieve the stated goals which are substantially two: faster economic development, and more balanced and more equitable socio-economic progress. The strategy is not spelled out but there is a clear endorsement of reforms which, the Prime Minister observes, cannot be wished away considering the global changes. The attitudes of the citizenry are to be changed to promote consciousness of duties alongside that of rights, and the private sector is to be motivated to work for the public good. How this basic change in attitudes is to be brought about is not mentioned. The habit of looking to the government is to be deprecated and the scope of non-governmental efforts is to be maximized. The process of reforms is to be broadened to include administrative and judicial reforms as also to be deepened to address the problems of poverty and unemployment. The opposition to reforms is put down as ludicrous but the Prime Minister is not unalive to growing opposition from labour unions which he proposes to deal with mainly through changes in labour laws. The agenda for the second phase of reforms includes their extension to the residual areas such as agriculture but there is no indication of concern or anxiety, explicit or implicit, for the continuing pressure of population which many believe is holding back progress. The commitment to the democratic form of polity is reaffirmed, which "considering the track record of many newly independent countries, including some in our own neighbourhood" is deemed as a major achievement of free India.

II

The experience with economic reforms since 1991 shows that the trickle-down effect of growth does not take place on its own. Unregulated markets add to labour insecurity, increase technological unemployment, widen social and economic disparities, and reverse the process of needed social changes.

Economic policy is rooted in theory. Much of economic theory as it has evolved since Lord Robbins's persuasive *Essay* of 1932 has no ethical content. It describes the way the market economy functions. Since the market economy is based on unhindered competition, it ensures only the survival of the fittest. Sciences do not deal with values. As such, economic science that describes the working of the market system leaves aside the questions of equity and fairness. This poses a major dilemma for those who have to make policy choices, particularly in a country with wide disparities of income and skewed distribution of assets. There is a large international market in economic ideas. As a form of organization, the mixed economy pattern was thought of as admitting the possibility of dealing concurrently with growth and equity. What the market could not do or did not do well could be taken care of by the State.

III

The past millennium belonged to the West. Large accumulation of wealth

based on rapid technological advances was its peak achievement. The Western civilization came gradually to be based on individualism and science rather than on brotherhood and faith. The millennium special issue of *The Economist* opens with the sentence "This has been the millennium of the West" and concludes with an "Obituary" of God proclaiming that "After a lengthy career, the Almighty recently passed into history." An economic system which does not connect with the people's values and concerns other than those which are economic may produce processes which are socially disruptive. I wonder which of the major social and economic ills have been taken care of by the reforms. Corruption and misuse of political power have increased rather than diminished, and civic and democratic values continue to be eroded by all and sundry. Assault on unemployment to redress poverty is having a negative social impact because of application of capital-intensive technologies by individual enterprises which find them more productive and also relieve them of labour conflicts. Shedding of surplus labour which remodelling of the economy requires has made market reforms unacceptable to labour unions, particularly in the public sector which is heavily overstuffed. Social services like health care and professional and technical education have gone almost out of reach of the ordinary people. Whereas reforms have raised the overall rate of growth of the national product, they have also considerably changed its composition in favour of non-essential, non-functional composition. An inapt analogy that there cannot be half pregnancy is being used to justify avoidable import of consumer goods. Although no reliable data are available to show how the gains of the new market-based policies have been distributed, marked increases in the consumption levels of socially advantaged sections suggests that these have gone, by and large, to the already well off groups. A new middle class is emerging with a large stake in property, stocks and shares. Privatization has also speeded up the growth of the informal sector which is where the child labour is employed. Alongside cost-reduction, competition has also produced economic wastes such as on manipulative advertising which may soon rank as a major industry. Money and not virtue is emerging as the new measure of man. On the whole, it is not only the State that is showing signs of withering away but the civil society as well which is becoming increasingly disposed to crime and violence.

IV

It has been argued recently that the 1991 reforms were a continuation of the policy changes which were being gradually effected since the early 1980s and by no means constitute a paradigm shift in India's development strategy. Be that as it may, the process since 1991 is not restricted to changes in the given system but seeks to change the system itself. The goal is a free-market regime which has far-reaching implications for India's economic and social stability. In what follows an attempt has been made to clarify what globalization means for India. The suggestions that emanate from the analysis are as follows:

One, to ensure that globalization works for the weaker and socially oppressed sections, the State must maintain its presence beyond mere regulation of the system.

Two, the process of development must take cognizance of the traditional cultural values which people regard as immutable.

Three, the development agenda must include improvement in the system of governance. This is especially called for as with increasing localization and

liberalization the Centre is likely to have less of control possibilities.

Four, in view of ubiquitous evidence that growth does not trickle down, the distribution of income must be upgraded as an essential goal of development.

Five, economic modelling must yield place to a framework in which development enterprise becomes socially inclusive.

And six, there ought to be an organization armed with statutory powers which ensures that the development policies being pursued by the national and sub-national governments strengthen Centre-State and inter-State relations.

V

India's choice of the middle path between free enterprise and State enterprise at the time of Independence was a collective and popular decision. Jawaharlal Nehru who spoke for the masses and articulated their aspirations was actuated by certain basic considerations.

First, he thought that "the acquisitive society" was "no longer suited to the present age" and sought its replacement by "a classless society, based on co-operative effort, with opportunities for all." He observed thus: "The strongest urge in the world today is that of social justice and equality" and came to the conclusion that any social structure that was based on the possession of land and capital by a few with "the others living on the verge of existence" stood "self-condemned" and had to be changed.

Secondly, while Nehru took the view that the free enterprise system had outlived its relevance, he could not accord his approval to a system that was based on the assumption of a hundred per cent controlled economy. He had two reasons for this; one was institutional and the other historical. From the institutional point of view he took the position that such a change was not possible without introducing 'authoritarianism' and 'totalitarianism'. To him, both these forms were based on dogma and were therefore irrational. He sought a system which could "realise economic growth and social justice without the sacrifice of freedom and the democratic rights of the common citizen. It was also clear to him that with every little growth that took place in the economy, the system would increasingly gravitate towards "monopolies and aggregations of economic power." He wanted to change the course of history but in a manner that did not break sharply with the country's "geographical, historical, religious, economic and social" background.

Thirdly, contrary to popular belief, Nehru did not regard the mixed-economy pattern as a half-way house between the capitalistic and the communistic forms of economic organization. To him the mixed economy was a synthesis of the two systems and, freed from their dogmatic approaches, represented a higher form of economic organization. Moreover, he took the position that the mixed economy alone possessed flexibility and resilience to assimilate changes in human activity and modes of production made possible by the continued phenomenal growth of science and technology.

Fourthly, Nehru believed that there was a direct relationship between economic activity and development of human character. He argued that if the individual had to realise his dignity and the fullest development of his higher faculties, it was necessary to provide him with adequate incentives - both pecuniary and non-pecuniary. Indicating that "private enterprise would ... have a large field" in the future set-up of the country, he justified it thus: "We have to encourage the spirit of

adventure, of invention and of taking risks in order to give an edge and substance to our lives." Introducing Socialism he wrote: "The only key to the solution of the world's problems and of India's problems lies in socialism." But then he added a significant rider: "There is a danger that socialism, while leading to affluence and even equitable distribution, may still miss some of the significant features of life. It is largely for this reason that stress becomes necessary on the individual."

Since a lot of dusting down is being done of the N.D.A. government in respect of its stand on foreign capital and enterprise, it is necessary to recall how Nehru dealt with this sensitive matter. Addressing the annual meeting of the Federation of Indian Chambers of Commerce and Industry on March 4, 1949, Nehru observed that as a rule capital is shy and does not come in for economic development rapidly enough. The investor, he stressed, "is a frightfully delicate person, and if any wrong word is said or some speech is delivered, his temperature goes up. The sensitiveness of the body or of the mind or of the spirit is nothing as compared to the sensitiveness of the pocket." Realising that the barrier of poverty could not be crossed without an adequate participation of foreign capital and diversion of a considerable proportion of the country's current income to capital formation, he laid great stress on creating the right climate for investment. During the famous debate in the Constituent Assembly on the Industrial Policy Resolution of 1948 he coined the motto: "a fair chance, a fair field and a fair profit." This was to apply to foreign as well as domestic investment.

The participation of foreign capital is justified because, in addition to supplementing national savings, "in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital." Nehru was fully alive to the political risks involved in accepting foreign aid. Speaking in the House of the People in 1952 he observed that all foreign aid leads to economic dependence on other countries though sometimes "This kind of thing is euphemistically called having close cultural and economic ties." He stated his own position unambiguously: "I would rather that our advance was slower than that we became dependent on the aid of other countries."

Nehru's concept of mixed economy emanated from his close understanding of history and can be understood only in terms of his *Weltanschauung*. He wanted his planners to evolve a concept of allocative efficiency which will steer production away from considerations of profit and base it firmly on the principle of social gain. A conscious use had to be made of price policy so as to check nonfunctional consumption and encourage flow of resources to essential areas of production. Such a policy, Nehru thought, might "involve all kinds of approaches including controls." Every effort had to be made to change human nature so as to eliminate hoarding for private profit and other anti-social activities. This was sought to be achieved through giving "the individual and the nation a sense of purpose, something to live for and if necessary to die for." One instinct that Nehru particularly wanted to be curbed was the instinct of private property. He spoke of this with unusual passion: "I have no respect for property, ... I have no property sense. It seems a burden to me to carry property, it is a nuisance. In life's journey one should be lightly laden; one cannot be tied down to a patch of land or a building. I cannot appreciate this intense attachment to property."

Nehru was not a visionary in his choice of economic strategy. He was conscious of the fact that he was initiating the process of economic development "in the context of full political democracy" for which there were no historical precedents and which carried severe constraints on social action to restrain consumption and flush out resources for development. He referred to this situation as follows: "The

development of modern nations of the Western world took place at a time when democracy as we know it today did not exist. The pressures from the people did not come to the surface. When people are politically conscious they make demands. The common mass of humanity does not agree to bear the cost of progress...". Again, "In Europe, an economic revolution preceded a real political revolution, and so when the latter came, certain resources had been built up by economic changes. In Asia, political revolution came first, followed immediately by demands for social betterment, which could not easily be fulfilled because of economic backwardness and lack of resources."

Whatever the constraints in mobilizing internal resources, Nehru did not abandon the goal of self-reliance and like his mentor, the great Mahatma, remained a man of the masses who valued means no less than ends. He would certainly not have chosen the path which his successors have chosen. As a great moralist, he always believed that it was better to be vaguely right than precisely wrong.

VI

Nehru's quest for mixed economy in which public sector was to capture the commanding heights and function as the main engine of economic growth came off badly because he did not have a firm theory of transition. There were some fundamental questions which he left over to "social engineering". To mention only some: What is "the spirit that moves a nation to high endeavour" in the absence of an ideology? How does a colonial economy evolve the new modes of production without a change in the character of the State? What are the dynamics by which a society dominated by caste and religion is transformed into a classless society? Can a system in which the means of production are in large part in private hands abridge inequalities? The outcome was growth of a large public sector bleeding the economy through supply of vital inputs such as water, power, fertilizer, and credit at highly subsidized rates to feudal and capitalist elements; rising levels of unemployment and social disparities causing large scale unrest and disenchantment with the political system; a license-permit raj in which corruption came to be routinely described as part of the "global phenomenon"; and the levers of power in the hands of mafia comprising politicians, bureaucrats and indictable persons whom the law of the land could not reach. Simultaneously, an influential power centre emerged in the public sector in organized labour and staff unions which frequently followed predatory policies and forced successive governments in the country to accept excessive wage settlements and increase public spending on unproductive employment. The practice of uneconomic user charges for public utility services to appease interest groups became an accepted feature of the price tariff and substantially contributed to unsustainable fiscal deficit in several States rendering them incapable of playing an active role in the country's development.

VII

The year 1991 witnessed a radical change in economic thinking. The planned mixed economy as a form of economic organization was abruptly discarded in favour of an open economy and free markets. Seven years later, in 1998, I.G. Patel, a high-minded economist whom Morarji Desai described as "a man of great independence" and who not only supports the reform revolution but has also taken the position that

"without integration with the world economy" India would be "marginalised" had the following to say by way of his assessment of the impact of reforms:

Much has been achieved, but the predominant sense is one of unease and comparative failure. The certainties of the early years of Independence have given way to doubts and disappointments, and there is no clarity or consensus on which way we should go.¹

India's troubled history since Independence has two important lessons. One, a soft State cannot ensure unity. Unity in a multicultural society presupposes the existence of strong leadership that is capable of taking hard decisions and places itself at the service of the nation rather than the nation at its service. Two, development strategies which do not take into account the basic characteristics of society, its history and traditions, and its value system cannot ensure orderly growth.

VIII

Indians are highly conscious of their caste and religious identity. This has a tremendous influence on their thinking and actions besides the fact that it has divided the Indian society into groups which are often at odds with each other. This has caused large scale political disorder in many parts of the country besides being socially disintegrative. India is sometimes cynically compared with China forgetting that as a nation Chinese are a whole lot more unified than Indians, have accordant interests, and a government whose authority is inviolate. Further, whereas China is promoting economic reforms, political democracy is not yet on her agenda. This is in sharp contrast to India which has launched economic reforms in the framework of political democracy.

A nation which has a long history has to make a conscious effort to reorient its value system to promote economic development. In no other area was such an effort needed more than in the sphere of population control. But since the tradition and religious beliefs did not encourage such a step India took the easy route of opening birth control clinics and family planning bureaus as if the control of population was only a medical problem.² It is not only the size but also the quality of population which has to be the focus of attention. The neglect of population control is all the more regrettable as Nehru was fully aware of the consequences of large population growth. Endorsing J.B.S. Haldane's view, he wrote in *The Discovery of India* as follows:

... in a great many civilized societies those types which are regarded in the particular society in question as admirable are less fertile than the general run of population....Large families are often associated with inferior intelligence. Economic success is also supposed to be the opposite of biological success.

Female education, child labour, empowerment of women, late marriages,

¹ *Economic Reform and Global Change*, Macmillan India Limited, Delhi 1998, p.3.

² P.N.Haksar in a seminar on "Jawaharlal Nehru and Social Change", organized jointly by Jawaharlal Nehru University and Punjabi University at Patiala from October 27 to 28, 1973, observed that the greatest mistake Jawaharlal Nehru made in thinking up his strategy of development was to have placed family planning in the Ministry of Health rather than in the Ministry of Education.

sterilization, abortion, incentives favouring small families, are all issues where the policy maker has to confront the value dilemma to make population control an integral part of his development strategy. Such a blueprint is yet to emerge as an operational document though one based on the recommendations of a panel of experts headed by M.S. Swaminathan is reported to have been approved by the government. I have not yet seen the document but the early reports in the Press do not indicate that the Panel plucked up the needed courage. *The Tribune* noted in an editorial that "The document still pins its hopes on a few tired incentives and shapeless promises" and *The Times of India* does not expect "the new policy to bring about any dramatic decline in population momentum".

I may be permitted to make a mention here of a viewpoint shared by many, including Professor Gunnar Myrdal, that the main reason for India not evolving an active population control policy under Nehru's leadership was the inhibiting influence of Mahatma Gandhi who not only denied that India was overpopulated but regarded all means of birth control other than continence as immoral. Mahatma Gandhi's 'paucity of wants' thesis laying stress on simple living was considered by many as unrealistic unless renunciation - whether Buddha's renunciation of a kingdom or Einstein's renunciation of a life of luxury - was voluntary and self-imposed. However, Mahatma Gandhi remained unmoved and considered 'abundance of goods' approach as alien to the Indian way of life.

India is a home of some major religions of the world. She has also a democratic form of government which has more or less stabilized. Both, people's involvement with religion and democratic polity, are major constraints on speedier growth³ However, the rate of economic growth cannot be a true measure of well-being in the Indian setting. Development of non-material resources has also to be viewed as a vital component of social advancement. This implies that India does not have to be in the market for full-scale liberalization. Just as her planned mixed economy was unique, she has to look for an alternative path within. Leaders of great nations cannot afford to be puppets. Affirming faith in Socialism on the occasion of celebrations of the 50th anniversary of the founding of Communist China held in October 1999 President Jiang Zemin spoke of "Socialist modernization" emphatically repudiating *laissez-faire*.

In view of India's large cultural diversity and involvement of her people with religion and a value system bequeathed by an ancient civilization, her development strategy cannot avoid "explicit dealings with values". She must involve sociologists in drawing up "a visionary road map for the future" within the existing framework of Indian society and ponder over the implications of headlong advance towards the free functioning of markets.

To make the country a better place to live for everybody and not only for the elite and the rich, vital social concerns like eliminating poverty, unemployment, ignorance, squalor and disease must take precedence over concerns with improving

³ Narasimha Rao's gifted Minister of Finance, Dr Manmohan Singh, was fully aware of the fact that he was initiating the process of economic reforms in the context of political democracy which encourages 'consumerist behaviour' and makes it difficult to mobilize resources for development. That is why he spoke of a parallel cultural revolution which will encourage 'a regime of austerity' with 'social security mechanism' and 'National Renewal Fund' firmly in place to protect the interests of workers before the economy geared up for technological sophistication. (See his budget speech, both Part A and Part B, dated July 24, 1991.)

the economy's rate of growth unmindful of its effect on the distribution of income. Addressing the Constituent Assembly Dr B.R. Ambedkar warned his countrymen that if attempts were not made to mitigate inequality, "those who suffer from inequality will blow up the structure of political democracy" which the Constituent Assembly had "so laboriously built up". How utter disregard has been shown to this vital aspect of social reconstruction will be clear from the fact that India celebrated her golden jubilee handing out close to half of the national product to the top 20 per cent people leaving less than 10 per cent for the bottom quintile.

If one accepts the proposition that India needs a strategy which is pragmatically sound, then her policy makers must change their mind-set and view economic efficiency somewhat differently than is usual in the Western theory. The latter considers optimum allocation of given resources and their development as its two main components. In the Indian setting the magnitude of poverty and unemployment is so large that no amount of concern with resources can ensure minimum living standards for all, at least not in the foreseeable future. A determined effort in the direction of rationalization of wants is equally necessary. Already the well-off and upwardly mobile sections are turning themselves into a class that has no strain on its conscience in living a life of luxury. Checks on their consumption are absolutely necessary if the market-driven growth has to have any meaning for the community as a whole. Reshaping of purchasing power in their hands through fiscal policy measures cannot be objected to either on grounds of equity or efficiency. Simultaneously, to ease pressure on the country's limited resources, tackling the population problem must be given due priority. Augmenting employment opportunities and increasing the supply of food and other essentials of life is operating on the side of demand alone. Mahatma Gandhi regarded restriction of wants as an important cultural trait of Indians and laid great store by it in solving the problem of poverty⁴. The point being made here is that it will be more appropriate in the Indian setting to regard 'economic efficiency' as a two-dimensional concept: 'optimum utilization of resources' being its one dimension and 'rationalization of wants' the other. Value-neutral economic science handed down to us by Western economists is woefully inadequate and has led to formulation of economic policies that leave aside such vital questions as overpopulation and inequality.

Greater attention also needs to be paid to the kind of technology that the country needs to import for development alongside of sectors in which its free choice is beneficial. Much of imported technology comes from highly industrialized countries and is capital-intensive. These countries themselves are experiencing unemployment rates which are the highest since World War II.⁵ Where imported technology is ecologically harmful, there are hidden costs as well which are often immeasurable and in some cases considerably high. A severe threat to sustainable development is however going to be environmental arising from technological developments in advanced industrial economies. The World Bank has identified four major environmental problems which need to be addressed by all national governments on a priority basis. These are: climate change, biodiversity loss, the pollution of international waters, and depletion of the ozone layer. Already, the climate change, through raising ocean levels, is "swamping the homes of millions of people in low-

⁴ See *Young India*, February 23, 1921; *From Yeravda Mandir*, p.24.

⁵ France 12.4 per cent, Germany 11.8 per cent.

lying countries" and the depletion of the ozone layer is "raising rates of skin cancer and cataracts". Desertification and the depletion of fish stocks are other environmental hazards which are going to cost countries like India dearly.

A country with widely diffused political power which is the case with most federal set-ups requires close monitoring of development policies being pursued at different levels. India has been singularly lacking in any organized effort in this regard. It is of utmost importance that development policies being pursued by the national and sub-national governments strengthen Centre-State and inter-State relations. Although there is a viewpoint that India as a unified nation-State has stabilized⁶, the statement is valid only when viewed in the time span of fifty years. In view of ominous developments in the sub-continent and many secessionist and subversive movements in the country there is an urgent need to study the logistics worked out by different federal set-ups to place inter-governmental relations on a steady footing and make use of these. Further, considering that the benefits of major development projects often extend over a long period of time, intergenerational issues of equity is another area which needs to be carefully researched.

IX

Let me now conclude my argument and quickly advance towards my main thesis. It is widely believed in the West that "liberal democracy and a market-oriented economic order are the only viable alternatives for modern societies." Some ten years ago, Francis Fukuyama, an influential American political scientist, contended in an article and subsequently in a book entitled *The End of History* that the "process of historical evolution culminates not in socialism but in democracy and a market economy." Eastern civilizations are different. Their sociocultural systems rule out "purely hedonic values"⁷ and lay much greater stress on "the interests of others and of the group as a whole in social living." India does not have to follow the path taken by the economies of the West. There is an historic opportunity for her to get away from the single continuum that regards centralized planning and the pure market system as its two extremes and work out an arrangement which shows a refined understanding of her own culture. Her social scientists and technologists have the necessary expertise. Perhaps, she needs a freedom movement in the realm of ideas. A major risk of integrating with the corporative state being fashioned by giant business houses and multinationals is "secrecy surrounding *essential* information" which tends to grow "through the processes of privatisation and corporate concentration Decisions are taken and deals are made over the heads of most of the world's citizens -and sometimes even their parliaments - who are fed", to quote from a recent Dag Hammarskjold seminar on 'Human Rights, Disarmament, Transparency and Accountability', "with an overload of *junk* information which threatens to turn the

⁶ See, for example, Dipankar Gupta, *Inclusive Unities: Experiences of the Indian Nation-State*, Punjabi University, Patiala, 1999.

⁷ The concept of optimum around which much of modern economic theory has been built has its roots in Jeremy Bentham's postulate of purely self-regarding psychology of man which he stated thus: "All men who are actuated by regard for any thing but self, are fools: those only whose regard is confined to self, are wise. I am of the number of the wise" (W. Stark, *Jeremy Bentham's Economic Writings*, Vol. III, 1954, p.422). Of course, the concept has since been rid of its hedonic implications and is nowadays used to describe a purely technical relationship.

global village into a global cultural dustbin...".

As of now, it appears that the process of stop-go economic reforms will continue for some more time. This denies the economy the benefits both of a planned and a liberal system. Perhaps it is in the nature of a soft state that it needs a crisis to turn around. This is how reforms got introduced. But the process flagged after the first lap. It is anybody's guess if it will reach the last lap. India is beset, as Professor I.M.D. Little recently observed, by "an extraordinary diversity of economic, regional, communal and caste interests" which make it difficult to manage "a wide range of conflict for a long time." The mixed economy pattern possessed flexibility which enabled the country to make critical social adjustments but the system reached an impasse in less than half a century. The fact that the country's political system withdrew support to one of India's ablest and most successful Finance Ministers within a short time is proof enough that the system cannot cope with major policy changes. The world has experimented with two alternative systems to manage modern economies. One folded up after initially performing well while the other is found unattractive by many for reasons which I would rather leave unmentioned except the one that it gave rise to colonialism. In this situation India has a clear advantage in evolving her own model of socio-economic development which has a respectable base in its time-honoured culture and value system, and unites rather than divides people. The size of the country's population and the magnitude of unemployment and poverty are so large that an exclusive concern with growth can be socially disruptive. Even Narasimha Rao now realizes this. In an address to the Assocham about a year ago, he said :

We cannot wait for the trickle-down; we need to engineer a bypass by investing massive resources for the benefit of the poorer sections, particularly in the rural areas, directly from the state's resources.

Stating that globalization is creating dual economies all over, he warns that benefiting only one can: "At some point... go beyond endurance and create tremendous internal social and economic strains, throwing the whole liberalization programme itself into disarray." What a denouement to the drama he scripted! Distribution of income and limits on property in land need to be upgraded as equally important objectives. Public policies must aim at building an ethos of restraint rather than putting up with rank consumerism which is eroding values as well as resources. Strategies of development must strike a balance between development of material and non-material resources. To comprehend what people really want, emphasis in research must increasingly shift to empirical work. This is what the late Professor M.N. Srinivas accomplished for Indian sociology. Early economic thinkers working on Indian problems realized the value of field studies as against abstract modelling developed in subsequent years. An outstanding example is Sardar Tarlok Singh's pioneering work, *Poverty and Social Change*, based on a survey of 1132 families representing nine villages in the Hissar district of Haryana carried out in 1940. The study offered "a framework of general ideas and principles" which could serve as the basis of realistic planning "conceived in the interest of the masses". Poverty and social injustice were a stark reality when Sardar Tarlok Singh wrote his book in 1945. These problems have continued to haunt us with heightened anxiety today over their social and political consequences. Twenty-four years later, a period during which the author was closely associated with India's development plans, he wrote as follows:

If we assess correctly the gains and limitations of the processes of

development which have been under way, we will surely perceive that the basic structural problems of a society cannot be bypassed, and that the sands of time run out sooner than we know.

Unfortunately, we did not learn from our experience and planning became more abstract in the subsequent period. The more recent concern for the instrumental value of primary education and health services is apparently due to the fact that its proponent received the 1999 Nobel Prize in Economics. I doubt that the national leadership would have otherwise taken much notice of his closely reasoned ideas. After all, he had been arguing since 1970 that there "were deep-seated class biases in the pressures" that determine educational priorities, and that the inequalities in education were, in fact, "a reflection of inequalities of economic and social powers of different groups in India".

In an address to a seminar on the new economic policy organized by the Indian Economic Association in August 1991, I had expressed a sincere hope that the new adventure will be "in consonance with our own native genius evolved over centuries stretching back into a hoary past". A more direct assertion of this view came in a lecture by Mrs Thatcher, who successfully carried through the process of change in Britain, organized under the auspices of the Citibank on September 19, 1994. Speaking on the moral case for Capitalism and the role of the State, she said, "While there are certain principles that are universal and rights that are inalienable, each country has its own traditions and beliefs, its own history and characteristics, all of which have to be taken into account, especially when making systemic changes." Nehru was not for too much dirigisme. He was a votary of progressively evolving mixed economy with built-in safeguards against the totalitarian trends, and of a strong government with accountability to the organized will of the people and genuinely committed to a social order that will focus on a common purpose and a common vision. His middle path was an experiment to reconcile modernism with tradition. He tried to create a system in which conflicting interests could be balanced through the benevolent intervention of the State. We may not stubbornly follow Nehru's approach; his mixed economy could be more mixed or less mixed. But the Indian state would certainly be inviting anarchy if it abandoned people in the hour of their need. This was perhaps also the deeper meaning of Amartya Sen's observation in his D.T.Lakdawala memorial lecture six and a half years ago that the problem with the Indian state was not that its government was in business but that it was too much in some sectors and too little in others. Development economists are increasingly veering around the idea that the roles of governments and markets are complementary and interventionist governments are not necessarily less efficient than those committed to laissez-faire. Even the World Bank which did not earlier subscribe to this viewpoint has come out in support of this thesis. In its Development Report for 1999/2000 it observes that "the experience of Japan, East Asia, and China make clear that it is possible for a country to have an interventionist government and still enjoy extremely rapid economic growth over a period of decades." Its observation in respect of China is more specific: "China, which alone includes 40 percent of all the inhabitants of low-income countries in the world, has had remarkable economic success with a development strategy that involves only a limited dose of market liberalization and privatization."

X

Along with China, India has been the greatest civilization on earth: There is something like the Indian way of life. It is not growth at any cost but growth with social justice. Globalization is a new slogan but not a new development. It is a stage in the evolution of capitalism and represents an acceleration in the international movement of capital and technical knowledge (though not of labour). If not properly managed, it will further marginalize the weak and the poor.

I am grateful to Professor S.K. Goyal, Director ISID, for graciously inviting me to address this select group. It has been both a privilege and honour.