

A renowned development economist born and educated in India, Lord Meghnad Desai is currently a professor at the London School of Economics and director of the Center for the Study of Global Governance.

In this interview, Desai discusses the transformation of India's economy, and the wider battle between planning and capitalism.

India's Economic Direction After Independence

INTERVIEWER: On the eve of independence in India, what were Nehru and Gandhi hoping to achieve for their country when they get their freedom?

LORD MEGHNAD DESAI: They were hoping to achieve real economic independence from Western [and] British domination, be it in economy [or] be it in politics, and they thought that India would be a self-sufficient country standing on its own feet—industrialized for Nehru, at peace with itself for Gandhi, but they really wanted nothing to do with foreign influence.

INTERVIEWER: And by cutting out foreign influences, what did they cut themselves off from?

LORD MEGHNAD DESAI: In Nehru's case, they cut themselves off from Western technology, [a] variety of ideas which would have encouraged, brought out, the real talent [that existed] in India of business entrepreneurs, of people of real energy who would have made India a rich country. These are people who have gone abroad and made successes of themselves. So India was rich in entrepreneurs' talent, but it was suppressed by the idea that only governments knew best.

INTERVIEWER: How did the values of Nehru and Gandhi differ?

LORD MEGHNAD DESAI: Nehru and much of the Indian independence movement was committed to industrialization of India, and they were also committed to the fact that the state would play a very active role. For them independence meant independence from foreign capital, because their experience of capitalism was British capital owning bits of India. So they were committed to this idea, and Nehru had started working on it about 10 years before independence. Gandhi, on the other hand, was absolutely against industrialization. He thought

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progress and modernization was bad for India, and bad for the West as well. He did not want India to go down the path of Western industrialization, because for him the choice was to reject the West.

INTERVIEWER: Do you think ultimately Gandhi was the wiser?

LORD MEGHNAD DESAI: No, I don't think that one could sustain a growing population in modern times when [that population] can see how other people live, to be able to persuade them that they somehow so much love India [that] they had to be so different from the world, that they can give all that up. I don't think that the Gandhian strategy was ever feasible except in small enclaves. You can have a Gandhian village; you cannot have a Gandhian nation.

INTERVIEWER: Describe Gandhi's vision for India.

LORD MEGHNAD DESAI: Gandhi's vision for India was in terms of village republics, lots and lots of villages, very few big cities. Each village was to be as self-sufficient as possible. It had to trade with other villages as [little as] possible. And somehow land was held in trust rather than privately owned for selfish gains. The ideal was somehow that there was an India like that, maybe 100, 200 years ago. An independent India would revive that true village India, and everybody would be happy. Gandhi was also a very strong believer in population controlled by self-abdication, as it were, self-avoidance, and therefore he did not worry about the population problem. He just thought it to be all right. His vision was deliberately anti-20th century.

INTERVIEWER: Contrast that with Nehru's vision.

LORD MEGHNAD DESAI: Nehru had seen [the] UK. He had seen the Soviet Union. He was a modernist; he was a modernizer. He wanted steel factories and big dams; he wanted a modern army; he wanted good roads and cars ... and [the] latest 20th-century [inventions]. He'd say it should be in the people's interest and not [for personal] gain, selfishly exploited. He wanted modernity; he wanted flashy steel mills.

INTERVIEWER: When you say flashy steel mills, what do you really mean?

LORD MEGHNAD DESAI: There's a great idea that while India had perfectly good textile factories at that time, selling good cloth abroad and at home, Nehru wanted to start from scratch with steel mills and machine tool factories, [goods] very remote from daily consumer needs. The idea was that you build basic industries so that you're not dependent on foreign supplies. And there was in Nehru's vision a national security idea as well: He wanted India to make its own armaments.

INTERVIEWER: Nehru [often] spoke in Britain and seemed to be influenced by two things. First of all, against the odds, [he] clung to the idea of democracy. But he also picked up the idea—I'm not quite sure whether this is Russia or British—of the whole concept of planning. Tell me how both planning and democracy played a big part in Nehru's thinking.

LORD MEGHNAD DESAI: Nehru's formative years were more in the inter-war period. He did not learn very much when he was a student at Cambridge; he just had a very good time. But in [the] inter-war period, planning was very popular, and people were trying to reconcile planning with democracy, mixed economy, combining capitalism and planning. They had seen the example of the Soviet Union, but [they] also lived through the war. The first world war was the first war of planned economies battling each other, and therefore the idea that you could avoid the wastage of capitalism, [that] you could have everything planned by engineers or experts who could lay down blueprints, that was very powerful in Nehru's mind. I think both the Fabian Socialist Labor Party's influence in the interwar period, as well as his visit to the Soviet Union, were both very important.

INTERVIEWER: In 1945 there were scores of countries about to restart after being shattered by the war or [set] to gain some kind of new independence. They had effectively three models to look at: regulated capitalism in the U.S.; massive command-control system on the economy in Stalin's Russia; or the middle way, the Third Way, the mixed economy. Is it fair to say that when Britain set out to build a mixed economy that was a big influence around the rest of the world?

LORD MEGHNAD DESAI: Yes, but I think it was almost simultaneous. The forces that were shaping Britain that led to a planned economy in 1945 were exactly the forces that shaped Nehru. Nehru was talking to the same people, people like Stafford Cripps, who were very influential in the Labor Party. And there used to be a thing called PEP, Political and Economic Planning, very influential in Britain. At that time even in the U.S. [there are] people like Walter Lippmann who are debating the limits of democracy and planning. So it would not have occurred to any of them that planning would become unpopular.

INTERVIEWER: Was it still believed that poverty was a product of capitalism [and] the only way to eliminate poverty was through some form of socialism?

LORD MEGHNAD DESAI: Poverty to a lot of people in the inter-war period, and not Nehru's generation, was a systematic product of capitalism, especially in countries that are subjected to imperial control by capitalist countries. For them the removal of poverty required removal or great modification of capitalism. Only socialism could eliminate poverty. That was firmly believed by even very democratic people, and they wanted to help democratic socialism for that reason.

INTERVIEWER: You said one of the greatest achievements of India was to remain democratic. How was it that somehow democracy survived or flourished in India, where [in] so many other developing countries it was abandoned?

LORD MEGHNAD DESAI: India had a very long independence movement. It started in 1886, [with] the first generation of Western-educated Indians. They were all liberals. They followed the Liberal Party in Britain, and they were very proud of their knowledge of parliamentary systems, parliamentary manners. They were big debaters. They [had], as it were, a long apprenticeship in training for being in power. Even when Gandhi made it a mass movement, the idea of elective representatives, elected working committees, elected leadership, all that stayed because basically Indians wanted to impress the British that they were going to be as good as the British were at running a parliamentary democracy. And that helped quite a lot.

Mahalanobis's Planning Model

INTERVIEWER: Please explain the concept of the Indian Statistical Institute, who Mahalanobis was, and the role this kind of detail, almost mathematical plowing, was going to play in the great new Indian economy.

LORD MEGHNAD DESAI: Nehru was always recruiting intellectuals in India on his side in the cause of planning. There was this genius statistician, [Prasanta Chandra] Mahalanobis, who was head of the Indian Statistical Institute. He was a physicist by training and became a statistician, and as a statistician he [had] a world-class reputation. Nehru asked Mahalanobis to think about how one planned an economy. And Mahalanobis, being that sort of mathematician, statistician, wrote out a planning model. He did not know that it was very similar to a model that the Soviet Union had used for its First Five-Year Plan, but independently he wrote out this mathematical model for planning. It was the basic idea was that the economy is [comprised of] sectors. [The] sectors feed into each other, and you have a pivotal sector, let's say steel making. The amount of steel determines how much [machinery] for consumer goods you're going to have, and so on and so forth. So if you concentrate on steel production, put all your money there, then that will regulate the rate of growth in the rest of the economy. You can lay it all down mathematically. Nehru, [who] had a science degree from Cambridge, was always very impressed by this scientific technical model. At that time Mahalanobis's model was hailed as one of the pioneering mathematical models for planning a mixed economy, and that made Mahalanobis very influential in a Second Five-Year Plan.

INTERVIEWER: What's wrong with a Five-Year Plan? What's wrong with a mathematical model? Does the economy really work like a mathematical model?

LORD MEGHNAD DESAI: In a sense all models are simplifications. [The problem] is not that Mahalanobis had a model, but the kind of thing that a model draws forward, that was the problem. He could have said, "Let us concentrate on agricultural production and simple consumer goods; let us look at employment" ... rather than go to the other end and say, "Let us look at how much steel the economy can produce, and how much machinery we can produce, and later on, much later on, we may get to consumer goods." In a sense it was not simply the model [that] is wrong, but the model's contents were the problem.

INTERVIEWER: So you don't reject the idea of reducing the economy into a mathematical model as such?

LORD MEGHNAD DESAI: No, not [as] such, because all economists use some kind of prior theory. We always used that sort of simplification—it makes thinking easier.

The Adored Ambassador Car: Symbol of Indian Industry

INTERVIEWER: Somebody once said that India produced great economists but a lousy economy. Do you think that's fair?

LORD MEGHNAD DESAI: Well, there are lots of great economists in India; there's no problem with that. Is India a lousy economy? It was a very sluggishly growing economy. But economists don't make [the] economy—economies make themselves. The problem is how you give incentives to people to work harder, how to innovate, [how] to migrate to get jobs. What people do with themselves is what the economy is.

INTERVIEWER: India is famous, particularly with tourists, for the much-loved Ambassador cars. But what is the moral about a car manufacturer that doesn't change [over] 30 or 40 years?

LORD MEGHNAD DESAI: The Ambassador car was a very peculiar thing for India, because it was linking India into British car manufacturing, which was by that time on its last legs anyway, the least innovative car industry in the 1950s. Indians, then having inherited the Ambassador model, decided not to change an iota of the design. They were so proud that they could make the Ambassador exactly like the British could do or even better. It became such a prize possession in our country—nobody wanted a different model Ambassador car; they wanted an original model Ambassador car. Everything became frozen, and [the] bureaucracy liked things to be frozen. That showed their power. And we know [now] they got into the wrong country partnership, [and] the wrong car industry, as well.

The Permit Raj and the Hindu Rate of Growth

INTERVIEWER: Two famous phrases came to be used to describe the stagnation of the Indian economy. One is the expression "the Permit Raj." What was the Permit Raj?

LORD MEGHNAD DESAI: Once Nehru started his very ambitious planning, and because there was not enough foreign assistance resources, they had to ration foreign assistance resources, and then they had to [have] import licenses and things like that. Then it also became a problem as to in what sector one would start new factories, who would start new factories. You had to get a permit to start a new factory or to expand an old factory, so people starting calling the Nehru planning system a Permit Raj. A raj is an Indian word for a kingdom, and we used to call it the British Raj when the British ruled over India. And so now it became not a Nehru Raj but a Permit Raj, because [the] permit was a dominant power in the economy. It proliferated; it became its own excuse. And the more it ran into problems, the greater the permits and licenses became, because the solution was not seen to be dismantling it, but [to] make it more complicated.

INTERVIEWER: [Some people have] used the phrase that the British created the bureaucracy and the Indians perfected it. Would you say that's a fair assessment?

LORD MEGHNAD DESAI: One of the great things that the British did in India was they gave it what they call the iron frame of bureaucracy, the civil service. One could almost say that while the British invented bureaucracy for India, the Indians perfected it. Indians actually took to bureaucracy like nothing on earth. They built a Permit Raj of such complexity and such beauty that nobody could penetrate it, nobody could defeat it. It was immensely elaborate and [had] very, very bright people working it. So it's not [out] of stupidity they work; they work out of cleverness. And a clever bureaucracy is much more difficult to defeat than a stupid bureaucracy.

INTERVIEWER: The other expression used to describe Indian stagnation was the "Hindu rate of growth." Could you explain what that meant?

LORD MEGHNAD DESAI: India between 1950 and 1980 had a very sluggish rate of growth. It was only about 3.5 percent per annum in total, which means in per capital terms is only about 1 percent per annum. There's a big debate as to why the growth rate was so low. The economists have an explanation for growth rate which they call the secular rate of growth.... So an Indian economist ... described it as the Hindu rate of growth. ... India was stuck with this rate of growth. It was India's own contribution to stagnation.

INTERVIEWER: If you go back to around 1945, 1950, even later, India didn't start behind; it started level with countries like Taiwan and South Korea. Explain what happened, and contrast where the per capita income stood [at] the end of World War II and at what point the others started to take off.

LORD MEGHNAD DESAI: India was the seventh largest industrial country in terms of total volume output at independence. People don't remember this. ... One of the largest entrepreneurial classes [was] already used to modern manufacturing. But the ambition to create a self-sufficient economy, independent of foreign capital, independent of foreign technology ... led to very low growth rate [in comparison with] countries which came later—Taiwan and South Korea, who [were] more or less as poor as India in the 1950s. Korea had also been ruined by the war, so in 1960 India and Korea were at the same level of income. Within the next 40 years, Korea became 25 times richer than India not by avoiding a state role in the economy, but by having a smart state, a state which gave its capitalists chances to make profit, chances to make profit out of efficiency, out of exporting. India suspected capitalists, it suspected the profit motive, and it tried to nail it down, block it, and thought that all growth would come from government planning. These contrasting models basically showed that by the late 1980s Korea was a miracle economy and India was a stagnant, slow-trot economy. That was very telling. Here was an Asian country, not a Western country, an Asian country, recently independent, [that] had a colonial experience, had a war experience, and even they could beat India at the game of growth. That really was very telling for Indian intellectuals.

INTERVIEWER: You mentioned that Korea had a smart government and they didn't have that mistrust of capitalism. But didn't actual trading abroad play a much bigger part in Korea's development than India's?

LORD MEGHNAD DESAI: That's right. The crucial difference was not that some countries plan and others did not plan. They all started planning. But in the late '60s, early '70s, Korea and Taiwan switched their economy to export orientation. They built up their [industrial] base, and then they switched to export orientation, and they gave their capitalists money only if they were succeeding in exporting Korean products. That meant that Korea had an unlimited market. India had a problem of creating a market [at] home and selling those, and the bulk of

the market was probably by the government itself, and that was limited by government revenue. The whole idea that there was a big market out there did not strike Indian planners. In the mid-70s India could have transformed itself like Korea into an export-oriented open economy, but there was a great suspicion of foreign trade, a great suspicion of imports. As a big country, a continental-size country, India has this delusion that it's self-sufficient, that they can live without foreigners, they can live without the world, and that proved to be rather damaging.

INTERVIEWER: It's very, very similar to the kind of dependencia theory that [prevailed] in South America, isn't it?

LORD MEGHNAD DESAI: That's right. Indian intellectuals were committed not to be seen to be dependent on Western technology and Western capital because that meant to them humiliation. They couldn't see trade as an equal partnership between buyer and seller.

The Indian Economy in Trouble

INTERVIEWER: At what point did Indian government figures or intellectuals begin to look around and see that it was time for a change?

LORD MEGHNAD DESAI: I think first in the 1980s, when Mrs. Gandhi came back to power. She could see that there was a big overhaul needed to the economy. She took a big loan from the IMF because [of] the oil shock, once the idea became that you could take big loans from foreign bodies, and she was much criticized for this. India successfully used the money and paid it back. Then her son Rajiv Gandhi, who was much younger, who did not have all these hang-ups, wanted to do much more foreign borrowing. That removed one constraint, but still the money was not properly used, because it was still used by the state sector. Then, when that state sector ran into real bankruptcy problems and India was going to be a debt defaulter, the Soviet Union collapsed. People suddenly realized that they had been committed to a model that did not work. Although they were not fully Sovietized, they were committed to admiring the Soviet Union and Eastern Europe, and that model had completely failed. So the younger people who are able to see this—and, to their credit, [some of] the older people were able to rethink their old ideas and adapt to new ideas. And that is to their credit; they were able to switch from one to the other mode of thinking.

INTERVIEWER: Was there any cross-pollination between Britain and India in the move to liberalization? Was Mrs. Thatcher any influence?

LORD MEGHNAD DESAI: Yes, Mrs. Thatcher's example was seen but not actually admired by many people in India. But Mrs. Gandhi admired Mrs. Thatcher as a strong woman, as another strong woman prime minister. She liked the decisiveness of Mrs. Thatcher. But truth to say they were looking more to Asia and to America than to Britain by that time. A number of young Indians had gone to America, lived there, and had come back and seen that the economy they were coming back to could do much, much better than it was doing.

IT and Bollywood: Success Without Government Involvement

INTERVIEWER: This leads us in a way to globalization. How significant is the success of [the] IT industry [and] technology in India?

LORD MEGHNAD DESAI: That is tremendously important. [The] IT industry [was] the first industry which has had global success in India without being part of the government's plans. It figured in no plan at all. No government sectors, no government plan said, "Let us invest in the IT sector." It is entirely a self-generated miracle. Because the people participating in it are younger people, many of them have been to the U.S. and experienced entrepreneurship and survived in a competitive market. They've come back, and they have made the room.

India has an ambivalence about foreigners. They don't like foreigners, [but] they like to be admired by foreigners. And the fact that [the] IT industry was admired by Americans, that was a very, very big booster to India. Once those people became a success, they also [displayed] a loving and very, very sophisticated manner. They were able to lobby ministers so that the minister would not interfere too much but would give them the supporting infrastructure like telephone lines and power and so on. And they were willing and able to spend a lot of their political goodwill in announcing the industry in a very collective way. So the IT industry has behaved in a remarkable progressive way. It's really become the aspiration of all the young people to join [the] IT industry, and that makes a lot of difference.

INTERVIEWER: Imagine if Hayek or any member of the Austrian School was here today. They would be saying it was the precise fact that there was no government involvement that made it successful.

LORD MEGHNAD DESAI: Yes, the success of the IT industry is precisely because the government did not make it a national priority. The government did try to make computer hardware a priority. Rajiv Gandhi did ... and that whole experiment was extremely expensive. ... There's another sector, the film industry—Bollywood, as it's called. That, too, is completely neglected by the government, and it is a global success. Lots and lots of people watch Indian films around the world. And India, unlike France, does not need cultural protection from American films because it can stand up to Hollywood in a one-to-one fashion. That is the mark of the new India: that it can succeed without government help.

INTERVIEWER: If you look at [these] two industries [IT and Bollywood], which have been an outstanding success for India, both with zero government involvement, what is the moral to be drawn here?

LORD MEGHNAD DESAI: The moral to be drawn here is something that the people in 1947 did not appreciate: that India has a unique collection of very entrepreneurial, hardworking, commercially minded people. They're not strangers to trade; India has been a trading country for thousands of years. India has been a private-sector economy for thousands of years. It has had a sophisticated financial network. And it needed an independent India to bring out this talent rather than invent a whole new machinery in its place. Now I think India has learned that you don't need a government to run the economy. You need the government not to interfere with the economy. The economy will run itself. There are some very talented people who will work very hard, and who will save, and who will invest, and who will get the opportunity. Yes, some of them will fail; they will go bankrupt. But bankruptcy, failure, through that they will make a success of their firms, of their industries. I think India has now slowly learned that lesson.

Advocating Capitalism: Desai's Change of Heart

INTERVIEWER: Just speaking personally, though, now you sound like a born-again free marketer. Given your background and your own education, was that the kind of orthodoxy in which you grew up, or have you yourself had a change of mind?

LORD MEGHNAD DESAI: In Bombay, where I was a young student, the Bombay School [of Economics] had its own alternative to [Mahalanobis's] plan, which all had to do with consumer goods, wage goods, expansion, agricultural expansion, and planning for that sort of method. At that time Bombay ... [was] full of people who are native entrepreneurs, who are traders. Traders are not a hated category. They are actually respectable people in the community. So I always had this alternative education.

But then, of course, I became caught up by the planning model, by Marxism and all that, for a number of years. And I, too, learned; we all have to learn. We all have to change our minds. I perhaps changed faster than India did. But by [the] mid-1980s I was quite convinced that the Indian model was going to collapse one of these days. It just took time to collapse. Through the 1990s I have been trying to argue the case for a reformed liberal economy in India. Many people have been surprised [that I], with my left-wing writing and reputation, that I am doing this, but I'm quite convinced that this is the way India will go forward.

INTERVIEWER: Fifty years ago people would say that poverty was a product of capitalism, that socialism was the only way to end poverty. And yet a lot of people seem to be saying now that really the best hope for the poor of the world is capitalism and free trade.

LORD MEGHNAD DESAI: Yes, absolutely, and I think capitalism over the long haul is the best guarantee for our removal of poverty. The problem is that capitalism, being an unregulated system, may cause upheavals along the way, and there are people who do not like to take risks, [who do not] like upheavals, do not like to see problems. It's the desire to stop problems [from] happening that inspires people to institute controls and regulations and so on. But what we have learned [is] that even though in the short run we may have upheavals, unemployment, destruction of old industries, creations of new industries, eventually over the last 200 years it is capitalism which has cured more poverty than in any previous period of our history. It's very hard to argue because it's a long haul, and politicians don't live that long.

Demonstrators, Clinton, and Obstacles to Freer Trade

INTERVIEWER: The anti-capitalism movement is by no means dead, and the demonstrations that started in Seattle seem to [be] spreading. When you look at those demonstrators, do you feel that they're possibly harming the very people that they say they want to help, the poor of the world?

LORD MEGHNAD DESAI: People who [were] demonstrating in Seattle have very mixed motives. Some of them are protecting their highly paid jobs, because they did not want free trade to come to America and take their jobs away. They did not want the Chinese to come be with Americans. There are others that are worried about the environment; people are worried about tribal diversity, and so on. Some of it is well-meaning, but I believe [it is] wrong [to advocate] protection against change. What's very important is [that] the change is going to happen. You have to swim with the tide; you cannot swim against the tide. The question [is] how you steer your economy or your people with the tide—not abandoning people, but basically taking them along—not making them swim against the tide and sink. It's a difficult thing to do, but you have to have faith that eventually people know what's best for them, and you can at best not get in their way. But certainly it is a mistake to tell them where to go and how to go there.

INTERVIEWER: Back to Seattle for a moment. On the surface, people thought what was going on here was that the Americans were trying to force through more free trade, impose more free trade on the poor of the world, and these demonstrators outside were there to protect the poor of the world. What was really going on?

LORD MEGHNAD DESAI: Inside the conference chamber Clinton was trying to sabotage other WTO talks because he did not want any real progress [toward] freer trade. ... He took a very tough stance about opening up trade. He talked about a social clause and an agreement clause, an idea that developing countries would have to have labor rights before they could trade. And he put obstacles in their path before liberalizing trade. The developing countries who wanted bigger concessions, more open trade, felt very frustrated. The developed countries excluded them from real debate and kept them waiting outside in the green room. They basically felt that they met a cartel of rich countries who were not going to liberalize their own trade regimes. So the real story of Seattle is not that Clinton was imposing free

trade. Clinton was blocking free trade, which is very unusual, because he was all the way until [then] very good on trade.

INTERVIEWER: But the other real story is the so-called poor countries of the world who are calling for more free trade.

LORD MEGHNAD DESAI: Absolutely. The poor countries of the world—India, Brazil, China—[were] not at the WTO. India, Brazil, Mexico, they were actually demanding bigger access to Western markets, more liberal, freer trade. They're not against free trade at all. They know that this is their path to prosperity.