India and the Global Economy: Role of Culture, Norms and Beliefs
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India and the Global Economy

Role of Culture, Norms and Beliefs

The roots of India's prolonged economic stagnation and the glimmer of hope that one notices on the horizon today cannot be fully understood if one ignores the variables that conventional analysis has taught us to ignore – the social norms, culture, beliefs, and the fabric of social interaction.

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I

In explaining the economic success or failure of a nation, economists and, taking the cue from them, others study the kind of macroeconomic policies in effect – openness to trade, the size of the fiscal deficit, and the nature of the exchange rate regime – and the hard structural features of the nation in question – such as its geography, topography and natural resources. In analysing India's progress and prospect I shall argue that some of the most important variables for understanding the subject are the ones that belong to the bathwater of this standard analysis. It will be argued that the roots of India's prolonged economic stagnation and the glimmer of hope that one notices on the horizon today cannot be fully understood if one ignores the variables that conventional analysis has taught us to ignore – the social norms, culture, beliefs, and the fabric of social interaction.

To say that the cause of a nation's stagnation lies in its culture or its collective beliefs does not mean a denial of the importance of economic policy, just as the assertion that the spilled fuel on the floor caused the fire does not exonerate the smoldering cigarette stub. Also, culture and social norms must not be taken as immutable features of society. They evolve and change, often responding unwittingly to the altering global environment and the inexorable advance of technology, but also at times consciously, through the will of the people to adopt a norm that may seem valuable or discard what may have become an anachronism. Public intellectuals, writers, Keynes' academic scribblers of yesteryear play a crucial role in this.

One can find many accounts from history of a nation's culture and norms changing. In 1950, Alec Adams, the British Charge d'Affaires in Korea, described Koreans thus: "Folks who live here mostly entertain the lowest opinion of Korean intelligence, mores, ability and industry. It is hard to believe, I gather, that they will ever be able to successfully govern themselves."[1] It seems impossible to square this with our contemporary view of Koreans, who are known for their intelligence and industry. It is possible that Alec Adams' opinion was shaped in part by racism, but he was not the only one to hold such an opinion (see Clifford's book cited in footnote 1); and it seems not unreasonable to suppose that Korean mores *have* changed during these last 50 years.

An understanding of the role of culture and collective beliefs can help us design better and more appropriate economic policy. In the case of Russia it is now recognised that the standard policies failed because they amounted to a transplant that Russian society was not prepared to accept – the requisite culture and norms for the market economy were not in place. But this is true not just for Russia. When economists go on with their pet, narrowly-focused policy agendas and fret that they are not immediately adopted in Tanzania or Venezuela, or get aborted, after adoption, because of social instability, in Indonesia or Yugoslavia, one reason for the frustration is the lack of understanding of the social and political context in which the policy is sought to be adopted.[2] Hence, the focus on the politico-cultural underbelly of an economy does not have to be founded in scepticism for *economic* policy, but in fact to design economic policy better and more appropriately.[3]

II

One of the most celebrated battles in our history is the one that was fought between Robert Clive and Siraj-ud-Daula in June 1757 in Plassey, West Bengal. Siraj's defeat would be a milestone in the establishment of the British empire in India. The battle was bizarre and brief. Siraj ud Daula's force was some 60,000 strong. This included close to 20,000 cavalry and 40,000 infantry. Clive, on the other hand, commanded an impossibly small force of 3,000 soldiers. Even the firepower was mismatched. Siraj's army had nearly 50 guns, most of them 24 or 32 pounders. Clive's men had eight field guns and one howitzer. Even if one deducts from the Indian side some 20,000 soldiers who were under Mir Jafar's charge and did very little to defend Siraj, the balance of resources was overwhelmingly in favour of India.[4] But within moments of the battle starting the Indian side was in disarray. Panic, lack of coordination and betrayal made the forces look not so much like a defending army as a wild rioting mob. The battle was won by Clive, within hours of its start. The defeat cannot be understood in terms of the balance of resources or individual human capital. It was essentially a failure of organisational capital or what in business schools today would be called managerial coordination.[5]

If in an economy some people control all the water, some all the food and some all the energy, even if the total amount of water, food and energy is very large, if this society does not learn how to exchange and trade, it will be a very poor society; indeed so poor that all may die. In a modern nation, it is not enough for there to be a lot of medical knowledge and engineering knowledge and knowledge of information technology. If the nation does not have the organisation to share and exchange this knowledge and to harness it where it is needed, it will be a miserable and poor nation. Since we do not typically think of organisational skill and the ability for coordinated action as a resource or capital, it is easy to overlook their importance. But in the case of India to overlook these is to seriously handicap analysis. It may not be entirely a matter of chance that India has so much individual talent in classical music but no tradition of the orchestra.

This is, in part, a consequence of the social norm not to submit to authority, whether it be the conductor's baton or the government's order. There are not too many cities in the world, where, like in Delhi in the early 1980s, above bus seats with the prominently-displaced label, 'Ladies Seat', there often had to be another beseeching sign: 'Please let ladies sit on Ladies Seat'. And, if my own limited observation of behaviour in Delhi buses is anything to go by, even this meta-order had very little effect.

It is worth emphasising here, by way of a brief digression, that what I am calling organisation or organisational capital[6] is quite different from education or human capital. The latter resides in individuals whereas organisation (and coordination) is a property of *collectivities*. A society of high human capital and poor organisation is like a society where lots of people have computers but there is no internet to link up the information in these computers. We know that the same society with the same number of computers becomes vastly more efficient if people are able to use the information in one another's computers. Likewise, the benefits of ample human capital are large, but would nevertheless be severely underutilised without the internet of organisation and coordination.[7]

By the same token the 'success' of the early colonisers from Europe is impossible to understand without looking at this mysterious resources – organisational capital. It is the development of the managerial technique, whereby a small number of Europeans could coordinate not only their own actions but use large numbers of locals to control the locals, that led to the advancement of the empires. The British empire was the crowning example of this method of management.

The rise of the British had another lesson in management – the importance of learning, for it is arguable that this technique was not their own but that of the Portuguese. It was developed during the viceroyalty of Alphonso d'Albuquerque in Goa from 1509 to 1515. Albuquerque mastered the technique of using a very limited number of his own people, the Portuguese, to control masses of natives, through a carefully designed system of incentives and disincentives, instead of the age-old practice of bringing in large occupying armies from the conquering nation to establish control over the new territories. It was a managerial system par excellence.

People learn most easily from those with whom they identify themselves. It is not surprising that the technique got mastered by other Europeans and facilitated the spread of colonialism but had little effect on the nawabs and the indigenous civilians.

In the case of India the British would soon edge out the Portuguese, who got deflected from their original mission of trade and commercial plunder by their zeal to convert and kill the heathens, in particular the Muslims of India. The British on the other hand offered them protection and won over their trust and soon they were using the same method of offering small incentives and punishments to commandeer the local population against the larger interests of the local population.

III

While the Indians did not learn this amorphous art of control and management from their colonial rulers, there was one thing they did learn from this colonial experience that would get etched in their collective psyche as a belief.[8] The British came to India not to rule but to trade. The initial contact that India had with Britain was not with the Crown but with one of the earliest multinational corporations of the world, the East India Company. But the trading interests of the company increasingly intertwined with the ruling interest of the nation from where the company originated. Commercial interest merged with political interest and gradually, almost absent-mindedly, a huge subcontinent had passed into the control of the British empire. Thenceforth, the Indians would be relieved of their resources not just through asymmetric trade and exchange but also taxation and state-sponsored extortion. The fear of multinationals and a mistrust of business and trade would get etched in the collective memory of India. And if the memory ever tended to fade, incidents such as the US interference in Allende's Chile to make Latin America safe for US business would restore it to health. Independent India would design its economic policy in the shadow of this memory.

One can see manifestations of this in all walks of Indian life, trivial and momentous. The mistrust of business and profit has been woven into songs and the remonstration of parents to children, who refuse to study hard, that they will end up having to do business when they grow up. One can see this in advertisements. In India there is a disproportionate effort to couch business in morality, to show that the low price or the big sale is not a business stratagem but an act of honour. I have some cuttings with me from a price warfare in 1984 among sellers of hosiery goods – undergarments, vests and 'baba suits' (whatever those are), who took out a series of advertisements in *The Indian Express*. These are funny because they are so blatant but they represent a common effort by firms to counter the widespread Indian mistrust of business. From my collection I reproduce here three. The first of these is an advertisement from March 22, which shows the picture of a kindly-looking man, Bal Krishan Khurana, and gives details of the sale that he was organising, including the fact that all items were being sold at the low price of Rs 30 each. Just below Khurana's picture and above those details, a bold caption read: "If I am asked about my last wish, I would pray to god to send me again to the great land of India, so that I can give more hosiery service to my countrymen."

Virtually all advertisements and commercials in every country have manufacturers and traders professing concern and care for the consumer's welfare. What is noteworthy in this advertisement is that it goes beyond pandering to the consumer. It appeals to morals beyond the marketplace, it appeals to the seller's patriotism.

A few days later, on March 26, came a challenge to Khurana in the form of an advertisement taken out by Ramesh Arora, a person sporting a beard in a manner befitting holy men. He was selling similar hosiery items at lower price than Khurana's, but that information was dwarfed by the moral message in bold, which said: "Today Ramesh Arora is going to sell hosiery item worth up to Rs 200 [for] only Rs 25 because I am the son of that respectable mother who did not desire bungalows from me, but desired the service of my nation. Just imagine can any one on this divine earth compete with me in selling hosiery items."

A little later, on May 20, Khurana did what Bertrand competition in oligopoly would lead us to expect of anybody who had bought a disproportionately large amount of hosiery. He cut the price to Rs 5 and appealed again not to good business or concern for consumer welfare, but this time to revolutionary fervour. The advertisement had a large-font caption that read: "The person who fights with nation's enemies is called REVOLUTIONARY. The person who sells Rs 150 worth export quality goods [for] Rs 5 is called BALKRISHAN KHURANA."

The other side of this same phenomenon – namely, the consumer's apprehension that businesses are always out to cheat[9] – had more significant consequences for India. It led to the creation of a large bureaucracy to control and monitor business and to set up barriers to foreign goods and investment. The tariffs on imports rose steadily, as successive finance ministers fell over one another to demonstrate their resolve not to allow foreigners to exploit Indians. Foreign direct investment was discouraged and this was done so successfully that the amount of FDI that was coming into India by the late 1980s was less than what was going to its much smaller neighbour, Bangladesh.

Globalisation, the growing disillusionment with the economy, a gradual drift of opinion all over the world and on top of this ready soil, a major crisis in the early 1990s would shake India out of her policy stupor. But I will come back to that a little later.

India's failure was, more than anything else, an intellectual failure. Many contemporary writers, charged by the euphoria of economic reform and market liberalisation, have written at length about the goodness of big business and the nobility of man's acquisitive urge. This is a distortion of history and contemporary reality. And it is not as if we need it to make a case in support of economic reforms and market liberalisation.

It is my opinion that a suspicion of the big and the powerful at any time is a sign of good judgment. The mistake that Indian policy-makers made lay elsewhere. First, they failed to realise that the global business ethos had changed, not only from the mid-18th century when Robert Clive had plundered India on behalf of a business concern but even through the 1970s and 1980s. The corporations are still hungry for profit, but emerging global norms do not allow them to use the kind of plundering strategy that they earlier employed. Secondly, the policy-makers lacked pragmatism. They made the erroneous deduction that if X is interested in only his own profit, then we cannot benefit from interacting with X and so should not have any truck with X. This deduction is invalid because it presumes that, if an agent does something in the agent's self-interest, then that something cannot have beneficial effects on others. But 'collateral benefits' in economics can be as ubiquitous as collateral damage in war. Even apart from this the above deduction would be reasonable if, other than such Xs, there were Ys, who were noble and effective business partners. Maybe such Ys will come to exist in some future time, but there are not many such Ys around now. So, while guarding our own interest, we must at the same time be prepared to deal with business houses, which may have no interest in human welfare at large. Pragmatism requires us to decide on the course of a particular action on the basis of how good its consequences are, and not on the basis of whether it requires us to interact with the hounds.

IV

Economists keep telling us about what is the 'obviously' right policy. 'If only', they will tell you, 'India had done this or that...', it would not be a nation in poverty the way it is. But a little study of history and a little open mind shows that there is virtually nothing that is *obviously* right or wrong. I do believe that India's persistence with a closed economy system – a direct by-product of her history and beliefs – hurt her, that it is the opening up of the 1990s that is the basis of hope and the little economic progress that has been witnessed. But, as we shall see, there are counter-examples, which would make a view different from mine not outrageously wrong or obviously false. Regrettably economics and the study of society is doomed to this innate ambiguity.

One can see the paradoxical nature of economic policy glaringly in India's most celebrated industry – information technology and software.

The numbers are quite stunning. In 1998-99 the volume of India's software exports was \$ 2.7 billion, in 1999-2000 it was over \$ 4 billion and in 2001-01, from the estimates coming in, it is expected that the exports will be \$ 6.2 billion. This trend has been there for the last eight years – an annual growth rate of approximately 40 per cent. This, given the compounding involved, means that every two years India's exports get virtually doubled. A study by NASSCOM and Mckinsey[10] in 1999 had predicted that India's exports would reach 50 billion dollars by the year 2008. Since India's total current exports are around \$ 40 billion, and nothing like this has happened in any other sector in India in anybody's living memory, these estimates and predictions are giving rise to much scepticism. I myself was initially sceptical, but having checked and compared different sources I am convinced that, give or take a margin of 5 per cent, the figures of the volume of exports are right.

No matter what we think of the forecast and even if we, quite reasonably, believe that it errs on the side of optimism, the performance thus far has been outstanding in this sector.

What is interesting is that India's software success has happened as an outcome of policies that were commonly viewed as defective. First, and foremost it was a consequence of India's 'over-investment' in higher education. For a long time we were used to seeing a glut of engineers in search of jobs and many economists criticised Indian policy-makers for this over-supply. Then came the admittedly unexpected breakthroughs, mainly in the US, in the IT sector, and suddenly the idle engineers had all vanished from the market.

Secondly, brain drain has for long been criticised for many of India's ills. Yet it is arguable that it is the brain drain to Silicon Valley that made Bangalore possible. As Indian computer professionals migrated to the US, ideas flowed back to India and the Indian industry took off. NASSCOM has estimated that the larger the outflow of computer professionals to outside India the greater the software exports from India.

Thirdly, it would be a denial of reality if we did not recognise that it was an act of closing the economy that spurred our domestic IT sector. In 1977 the Janata government asked IBM to leave India, since they refused to dilute their ownership of 100 per cent of the subsidiaries. And, as Infosys's CEO Narayana Murthy has recently written, "this was in some sense a blessing in disguise", encouraging the production "of smaller, state-of-the-art but cheaper minicomputers and microcomputers".[11] But after that, the boost to this sector came, as Narayana Murthy acknowledges in the same paper, from the opening up of the economy in the 1990s.

One sobering experience for the confident economist comes from Russia. It has long been believed that privatisation leads to efficiency. But as Russia privatised, it was soon recognised that, if the supporting institutions are not there, it may not be in the interest of the entrepreneurs to work to maximise the long-run value of the firms. Instead they could serve their own interest best through asset-stripping or 'self-dealing'. The anarchy that ensued in Russia is now well known. As Bernard Black, Reinier Kraakman and Anna Tarassova wrote in the *Stanford Law Review*[12] of 2000, "The weak legal and institutional framework was no secret to the privatisers. But writing good laws can take years and building good institutions takes decades. The privatisers weren't willing to wait." Some argued that privatisation would result in a demand to reform the institutions and bring in the rule of law. But that did not happen, or happened with so much time lag that the damage to the economy in the interim period was great.

I believe that there is need now to move more strongly forward with the reforms, allow private firms to enter sectors earlier kept reserved for state-owned enterprises (this is more important than privatisation), open the economy further and, in particular, allow Indian companies to go for larger acquisitions abroad. But we must be aware that there are no panaceas in economic policy. We have to be prepared for flexibility, to experiment with policy but be ready to adjust, alter and on occasions even do U-turns, depending on the evidence coming in. To stick with one policy, unbendingly, is to make the same mistake of policy stubbornness that led India to her present predicament.

Take, for instance, trade liberalisation. While there is need to push ahead with this in today's India, it is not obvious that doing this in the 1960s or 1970s would have automatically yielded benefits for India. There are several laws and institutional features of Indian industry that handicap our domestic producers. For example, there are some industries, such as handicrafts and toys, which are marked as belonging to the small-scale sectors. Large-scale factory production is not permitted in these industries. Imagine what would happen if India opened up the doors to all imports suddenly, without liberalising this sector. Foreign producers would manufacture the same goods in large-scale modern factories, lower their per unit cost of production and out-compete the Indian producers, handicapped by the Indian laws. In brief, unless a whole lot of complementary features are ready in an economy, a good-looking policy can backfire. This must not become an alibi for resisting change and openness, as it did in India, but it is an argument that needs to be recognised all the same.

Likewise for globalisation. This creates great opportunities, but to maintain that it has no costs is to make the same mistake of overconfidence that served India so poorly in the past. For one globalisation is likely to bring prices of the weaker economies into alignment with prices in the industrialised nations. Given that the price of illiterate labour is close to zero in industrialised nations, this means that the illiterate population of developing nations will tend to get extremely impoverished if there is globalisation without complementary government intervention.[13] In a country like India where 35 per cent of the people are illiterate globalisation can contribute to increasing poverty and inequality.[14] It is important to recognise this, not to try to thwart globalisation but to prepare for it.

V

Contemporary India has been studied, dissected and researched. The villages around Hyderabad have been surveyed so many times by ICRISAT economists that when a researcher asked a villager some questions, legend[15] has it that the villager replied, "Sir, please tell me if this is for an MPhil or a PhD I will accordingly make the answer brief or long".

To understand contemporary India's economic problems, I find it useful to travel back a little in time and research the roots. To me this is especially important because I do not believe that history is amenable to theory or that it can be codified in a law so that we can dispense with the details. It is therefore a tragedy when great intellectuals spend inordinate amounts of time to unearth the laws of history, and an even greater tragedy when they find them. This can mislead ordinary mortals into an illusion of knowledge, into a false confidence about what lies ahead and make them shed scepticism, which is the mainspring of not just enquiry and true knowledge, but of civil society.

Many see no redeeming feature in India's performance during the first 30 years or so of independence. But if one compares whatever data are available from pre-independence India with post-1947 data, it is clear that independence has been good for India, not just for her democracy, morale and self-respect, but for her economy and the standard of living. Take literacy. Despite Britain's avowal to educate the Indians,[16] India's literacy in 1951 was 17 per cent. In the next 10 years, it would double. Thereafter the rise would be slow, reaching a level of 65 per cent in the current year. But no matter how one measures it, it is clear that the performance during the first 50 years of the last century was far outstripped by the second 50.

The same is true for per capita income. From 1900 to 1947 India's national income grew at slightly less than 1 per cent per annum, which amounted to a per capita income growth rate of 0.1 per cent per annum.[17] In comparison, the notorious 'Hindu rate of growth' of national income of just over 3 per cent per annum, at which India was stuck from 1947 to 1975, and the 5 per cent per annum that was achieved during 1976-1991 are significantly higher. And of course the period 1992 to 2001 with an annual growth rate of 6.5 per cent looks positively bullish.[18]

Indeed in terms of virtually all measures of standard of living that one can think of, independence turns out to be a dummy variable of significance, with performance clearly better after it than before.

The frustration with India is not that nothing happened since 1947, but that more did not happen, that rhetoric and achievement diverged so widely.

In some sense this was inevitable because India's policy was born out of two conflicting systems of beliefs and ideas – those of Gandhi and Nehru – held together precariously, and often with the differences denied, because this was one difference that Indians found too difficult to confront.[19] The differences had roots that go back to well before 1947. They can be found in Nehru's education at Harrow and Cambridge, his commitment to Fabian socialism, and in Gandhi's grass roots struggle, experiments in alternative living and innate convictions. As early as 1933 Nehru had confided to his diary, "I cannot understand how [Gandhi] can accept...the present social order [and] how he can surround himself with men who are...the beneficiaries of this social order." Nehru was more radical in a conventional sense than Gandhi. This was clear from his diary entry: "In many ways I have far more in common with English and other non-Indian socialists than I have with non-socialists in India".[20]

Gandhi lived the life with a minimum of material trappings, but did not believe in socialism – certainly not of any known variety. He viewed Nehru's difference of opinion with tolerance and understanding. Thus in 1937 he would tell some foreign visitors: "[Nehru's] enunciation of scientific socialism does not jar on me. I have been living the life since 1906 that he would have all-India to live. To say that he favours Russian Communism is a travesty of truth." Gandhi was right in his assessment of Nehru. But the economic policy they envisaged for India were very different. In the 1930s and even the early 1940s Nehru was quite enamoured by Marx and Lenin (though not by Russian Communism) and referred to their works repeatedly in his diary entries and in letters to friends. He would have shed his Marxism-Leninism and even socialism by the time India attained her independence, but his faith in mega planning, heavy industry, modern science and technology would persist. Along with Prasanta Mahalanobis, he would try to give shape to those ideas in the form of what came to be called the Mahalanobis-Nehru strategy of development.[21]

The actual policy regime that India followed in her early days was a mixture of these two competing (and almost contradictory) visions. A Soviet-style planning system was developed, but without the state having a monopoly of control over the resources. Capitalism was allowed to flourish, but a large bureaucracy was nurtured. Huge investments were made in basic industries but at the same time several sectors were protected as belonging to the small-scale sector. Capitalism was criticised but it was at the same time relied upon. Socialism was never practised but the rhetoric of socialism was the norm. A burgeoning bureaucracy became the surrogate for socialism.

Ideas played a major role, and in this case the dominant ideas were those of Nehru. Nehru was of course an outstanding intellectual, with a flair for writing that put him in the class of a very limited number of national leaders in world history. But he was not obsessive about economic growth the way some other 20th century leaders have been, such as Park Chung Hee of Korea or Lee Kwan Yew of Singapore. Nehru did participate in the economic planning process; but his interest was not so much in the plans as in the prose of the plans. Not surprisingly, while Korea produced some of the most effective policy plans, India produced some of the most well-*written* policy plans.

Advisers from Washington and many economists recommend that third world nations must have democracy and that they must open up their economy and privatise, oblivious of the fact that to ask for a democracy and then to insist what the democracy should choose could amount to a contradiction. Since most developing countries are not democracies they did not face the problem, but India did. Once people's opinion had been shaped (and Nehru was instrumental in this), their was no way that policies could be easily dictated to them. Opinion would have to be moulded before major policy shifts were possible. Or at least you had to catch people in a moment of doubt or vacillation to usher in changes.

VI

That is exactly what Manmohan Singh deftly achieved as finance minister in 1991 and in the few years after that. In 1991 India ran into its most economic crisis. Because of the Gulf war a foreign exchange shortage occurred and India came close to defaulting on its international debt commitments. Major policy initiatives were needed and from 1991 to 1993 major changes in policy were effected.

The effects of these are quite apparent. The most important policy initiatives were in the international sector and the major successes have been in that sector.[22] Our foreign exchange balance has grown rapidly. Thanks to the economy's openness, our information technology sector has expanded at record rates. Of the total amount of software produced in India, two-thirds is exported. So the global interaction has been crucial to this sector. As a consequence of all this the economy's overall growth rate has been very good. From 1994 to 1997, Indian national income grew at over 7 per cent per annum and during the entire last decade, the growth rate has been around 6.5 per cent. There are specific sectors, such as the consumer-durables industry, that have done very well. A study by K V Ramaswamy[23] has shown that growth in the post-reform period has been significantly higher than in the pre-reform period, and, more importantly, firms have responded to the reforms by going in for technological upgradation.

Literacy has risen from 52 per cent in 1991 to 65 per cent in 2001. This, I believe, is not so much a consequence of government policy as people's changing view of the value of education (caused by the greater exposure to the world out there), which has led to parents demanding better education for their children and often being willing to pay for that at the expense of great personal hardship.

It must be mentioned that it has not been all rosy. Inequality has been rising and regional disparities have been growing. On poverty lots of very confusing data are coming in and the jury is still out.

Overall, I feel optimistic about the trend, even though there will be ups and downs en route. The IT sector could turn out to be India's philosopher's stone.

There has recently been concern expressed about this sector based on the observation that the global situation has changed since 1999 in ways that beckon us to revise the forecast downwards. First, there is the downturn in the US stock market, especially in the IT sector. This is indeed a matter of some concern, since 66 per cent of India's exports end up in North America. However, what must be realised is that the stock market tends to correlate with the profitability of the industry and this need not be correlated with the *size* of the industry. And India's exports depend mainly on the size of the US industry. One reason why the technology stocks are doing badly is precisely because the IT sector in the US is such an attractive industry and growing so rapidly. As the number of firms increase, profits go down; and so the stock market does poorly – especially so since market players did not understand this and had over-invested in technology stocks. So this in itself should have only a small effect on India's exports. If, however, the US economy goes into a slump and US growth stops or becomes negative, then the projections can go wrong.

The second worry pertains to the supply-side in India. With the large flight of computer professionals out of India, there is going to be a supply bottleneck forming in India's software production. This problem is likely to be exacerbated with the recent increases in the US quota of H1B visas. For the next three years the US is going to let in 2,00,000 professionals under the H1B category each year. Moreover, there is no reason to believe the number will be made smaller after three years. Typically, about 45 per cent of these visas go to Indians (the second largest category being the Chinese, 9 per cent) and 53 per cent of the ones who get H1B visas are computer professionals. This means that roughly 50,000 computer professionals will leave India for the US each year. When one adds to this the (admittedly smaller) flows to Germany, Sweden and even Japan, it is evident that the next years will test the limits of how many computer professionals India can produce.

While this is reason for some concern, it must be recognised, as I mentioned earlier, that IT is the sector in which India has actually benefited from the brain drain. So this increased demand for Indian computer personnel should be treated as a blessing and government should simply work hard to educate a larger number of Indians appropriately.

One worry for India's development prospect concerns the recent movements in the savings rate (and investment rate). After rising sharply through the 1970s, and slowly through the 1980s and early 1990s, this has declined suddenly in the late 1990s.

It was 22 per cent in 1998-99, having climbed to over 24 per cent in the mid-1990s.[24] It is difficult, as yet, to tell the reason for this, though it is conceivable that the worsening fiscal situation[25] has caused government savings to fall, bringing down the overall rate. Whatever be the reason, government needs to be aware that stagnation in the savings and investment rate can negate all the other good policies.

Globalisation will bring with it many ills. I have written about these elsewhere. But on balance it will open up more windows of opportunity for India than close. It is beginning to change the nature of management of Indian firms and will hopefully influence the organisation of government. It is bringing in new ideas for how to organise and how to govern the market. It is changing our beliefs about what is good and what is bad for the economy. These beliefs may be right or wrong, but they will have a bigger impact on the economy than most people realise. There are huge inequities and injustices in the world for us to try to remedy. It is not always clear how we can achieve this and whether this can at all be achieved by a single nation. Therefore, when crafting policy, it is best to recognise the features of the world that we must take as given, and try to do our best *subject* to those constraints. We could direct *some* of our effort to change those constraints, but to craft policy *assuming* that the features of the global economy and the rules of the global game that we do not like are malleable, is to court failure. EPW

Notes

[Text of the first Savitaben Kantilal Trivedi Memorial Lecture given at Indiana University, Bloomington, on April 6, 2001. The author is grateful to Gerald Larson, Pravin Trivedi and Ashok Lahiri for encouragement and valuable conversations.]

1 Quoted in Mark Clifford, *Troubled Tiger*, London, M E Sharpe, p 29.

2 See Jean-Philippe Platteau, *Institutions, Social Norms, and Economic Development*, Harwood Academic Publishers, 2000, and 'Behind the Market Stage where Real Societies Exist', *Journal of Development Studies*, vol 30, nos 3 and 4; and Pranab Bardhan, *The Political Economy of Development in India*, Blackwell Publishers, Oxford, 1984.

3 Recently, Daron Acemoglu, Simon Johnson and James Robinson have argued convincingly in their paper, 'Reversal of Fortune: Geography and Institutions in the Making of Modern Income Distribution' (mimeo: MIT, 2001), that the colonial experience delivered an institutional shock to the colonised nations, and the nature of this shock has been crucial in influencing the subsequent development path of each of these nations. Their aim is to deflect the focus of economic success away from geography or the more proximate policy variables (which may be important but are themselves the product of the institutional context) to the larger idea of 'good institutions', which are rooted in a nation's political experience.

4 Accounts of the Battle of Plassey and Robert Clive's strategies are legion. The numbers I quote here are from Nirad Chaudhuri's *Clive of India*, Barrie and Jenkins, 1975.

5 Thus Robert Harvey writes, in *Clive: The Life and Death of a British Emperor*, Hodder and Stoughton, London, 1998, p 91: "To comprehend the campaign at Trichinopoly, and indeed later in Bengal, it is necessary to understand the nature of the colourful, shambling circuses that were the Indian armies of the time...The forces of an Indian prince much more nearly resembled a travelling township than an army".

6 I deliberately avoid the term 'social capital' for it has been used in so many different senses in recent times, though its original meaning does have overlaps with the concept being used here.

7 Pranab Bardhan has recently (in his 'Crouching Tiger, Lumbering Elephant' in Kaushik Basu, Pulin Nayak and Ranjan Ray (eds), *Markets and Governments*, Oxford University Press, New Delhi, forthcoming) made a similar observation about *contemporary* India, arguing that some of India's failures are rooted in her inability to resolve 'collective action problems'. He maintains that China's recent retrenchment of large numbers of workers from over-manned public sector enterprises is founded in China's relative greater skill for putting the 'collective resolve' into action.

8 For a discussion of the relation between beliefs and economic progress, and a classification of growth-enhancing and growth-hindering beliefs see my *Prelude to Political Economy: A Study of the Social and Political Foundations of Economics*, Oxford University Press, New York and Oxford, 2000, Chapter 4.

9 The consumers' belief is not necessarily false. I have in fact argued in my book, *Prelude* (see previous footnote) that this belief can be self-fulfilling, in the sense that, given such a collective belief, the kind of business practices that come into existence mirror the belief, and of course the belief then is fully justified.

10 See www.indianembassy.org/indiainfo/india_it.htm.

11 N R Narayana Murthy, 'Making India a Significant IT Player in this Millennium' in Romila Thapar (ed), *India: Another Millennium?*, Penguin Books, New Delhi, 2000, p 215.

12 'Russian Privatisation and Corporate Governance: What Went Wrong', vol 51, 1730-1808. See also Karla Hoff, 'The Logic of Political Constraints and Reform with Applications to Strategies for Privatisation', mimeo: The World Bank, Washington, 2000.

13 Research by Adrian Wood and Michele Calandrino ('When Other Giant Awakens: Trade and Human Resources in India', *Economic and Political Weekly*, December 30, 2000, vol 35) suggests that, as India's foreign trade increases, this raises the demand for educated workers but lowers the demand for illiterate workers.

14 The subject of inequality and poverty is an important one for global policy. I have discussed some of the measurement issues involved in Basu, 'On the Goals of Development' in Gerald Meier and Joseph Stiglitz (eds), *Frontiers of Development Economics*, Oxford University Press, New York and Oxford, 2001. I believe that left to the market global inequality will tend to grow to intolerable levels. However, there is very little that a single developing country can do about this. To try to control inequality too aggressively within ones own territory is likely to drive capital away, causing greater poverty. What is needed is a concerted global plan. There is much that can be done by way of controlling inequality, without hurting incentives and entrepreneurship, but this has to be a global effort and is a subject matter that lies beyond the scope of this paper.

15 This 'legend' – for want of a better word – was related to me by Puran Mongia.

16 In the case of some viceroys, the commitment to India was genuine. This was most notably so for Louis Mountbatten.

17 The figures are from S Sivasubramonian, 'Revised Estimates of the National Income of India, 1900-01 to 1946-47', *Indian Economic and Social History Review*, vol 34. For discussion and comparison of growth rates before and after independence, see Tirthankar Roy, *The Economic History of India, 1857-1947*, Oxford University Press, New Delhi, 2001, Chapter 7, and Mukul Majumdar, 'The East Asian Miracle and India', Satyendra Nath Memorial Lecture, Asiatic Society, Calcutta, 1997.

18 For a discussion of this growth history and the break up of independent India's economic history into these three periods, see my 'Whither India? The Prospect of Prosperity' in Romila Thapar's book cited in footnote 10.

19 See Kaushik Basu and Prasanta Pattanaik, 'India's Economy and the Reforms of the 1990s: Genesis and Prospect' in *Journal of International Trade and Economic Development*, 1998, vol 6, no 2, pp 123-33.

20 These are quoted in Stanley Wolpert's *Nehru: A Tryst with Destiny*, Oxford University Press, New York and Oxford, 1996.

21 See *Prasanta Chandra Mahalanobis* by Ashoka Rudra, Oxford University Press, New Delhi, especially chapter 11, written by T N Srinivasan.

22 What is not always noted is that there were also significant changes in monetary policy. Since 1992 there has been a conscious effort to lower interest rates and encourage greater lending. In 1993 the minimum lending rate was lowered from 17 per cent to 15 per cent and the SLR was lowered from 30 per cent to 25 per cent, open market operations being used simultaneously to neutralise money supply increases and control inflation. For a discussion of monetary policy see C Rangarajan, 'Leading Issues in Monetary Policy' (Sukhamoy Chakravarty Memorial Lecture, March 31, 2001), *Economic and Political Weekly*, June 16, 2001.

23 'Economic Reforms, Industrial Structure and Performance: The Case of Consumer Goods Durable Industry in India' in Shuji Uchikawa (ed), *Economic Reforms and Industrial Structure in India*, Institute of Developing Economies, Tokyo, 2001.

24 See Ashwini Deshpande, 'Economy in Logjam', *The Times of India*, July 28, 2001.

25 For an analysis of India's recent fiscal experience see Ashok Lahiri and R Kannan (2001), 'India's Fiscal Deficits and their Sustainability in Perspective', mimeo: National Institute of Public Finance and Policy, New Delhi.