

1

Introduction

SUBROTO ROY and WILLIAM E. JAMES

Nations like individuals have to come to terms with their histories. The more objectively they can do so, the better may be their self-understanding and self-confidence, and perhaps the more stable will be their political institutions and systems of government. It is hard enough, of course, for the individual person to ask questions of his or her own identity, acts and omissions, and it is that much harder to do so on the scale of a nation. Dull histories may make for stable societies, while bloody and complicated histories may make the political economy of today a pathological one and so provide a greater challenge to the citizen and the reformer.

India in the 1990s has entered the fifth decade of her history as a unitary democratic republic. As with the other ancient Asian civilizations, the recent history of India may be seen partly in relation to her encounter with the modern West, in particular, the gradual displacement of foreign rule by three or four generations of nationalists, increasingly familiar with both the achievements and failings of western civilization and concerned in this light to revive India from her stagnation. The successes and failures of the first Indian Republic over forty years are relative to the promise

that had been held out by one hundred years of Indian nationalism. They are the fruits of that tryst with destiny that happened at the midnight hour. As we enter the 1990s, one of the tasks facing the citizens and friends of India is to engage in open and frank discussion of where we are with respect to that promise and its feasibility, and to what extent these may call for redefinition in the present circumstances. In the maxim of J.M. Keynes, we have to 'study the present in the light of the past for the purposes of the future.'¹ It is the purpose of this volume of essays to contribute to the discussion of India's agenda for the 1990s and beyond.

Our editorial method has been as follows. Certain subjects were identified by the editors in late 1986 as likely to be of some permanence to the Indian agenda. It was felt that there should be a medium or long-term focus, which precluded topics that depended on short-term changes or electoral fortunes. It was felt too that a fresh and clear-headed look at the problems should be aimed for, with as little jargon and professional gibberish as possible. And it was felt very strongly that India's problems demand interdisciplinary attention, crossing freely the narrow boundaries of economics, politics, history or philosophy as needed, and employing more of the methods of an earlier political economy instead. If the arrangement or form of the volume seem to favor economic questions, this may be because the editors, as economists themselves, have felt it imperative that discussion of Indian economic questions be framed within a broader and deeper perspective than is allowed for by the trends of contemporary (mainly American) economics. At the same time it is hoped that the economic discussions in this volume will not appear overly specialized to other students of India's political economy.

Following this definition of purpose, and its generous funding by the University of Hawaii and the East West Center, a process of intensive consultation and extensive search continued throughout 1987 and 1988. By early 1989, a small number of authors had been commissioned with individual subjects. With the exception of Milton Friedman, whose 1955 memorandum is published here for the first time, each author was expected to write a synoptic preview of the planned chapter followed by a substantial first draft. Each such draft was read by at least one independent referee, as well as subjected to intense open discussion at a meeting of the participants in Honolulu in May 1989. From this emerged in early 1990 a set of

second drafts, which were revised editorially, where necessary, for style or clarity. The entire product was read in the summer of 1990 by the publisher's referee and further editorial changes were made accordingly, bringing the project to an end after four years of collective work. Finally, the editors were asked by the publisher to consider revising the introduction in view of the grave political and economic events of 1990-91. This has been done by adding a short postscript to the introduction.

The principal responsibility for the substance and accuracy of each chapter rests with its individual author. Each chapter is an original contribution written for the purposes of this project, while at the same time being able to stand independently of the others. The responsibility for the choice of subjects and choice of authors, the extent of substantive and stylistic quality-control, and the interpretations and judgements contained in this Introduction rest with the editors. In particular, it should not be assumed that individual authors or editors of this volume agree with one another on matters of substance, interpretation or judgement. India's problems are various and complicated, and her citizens and friends of all schools of thought have to make their approaches with open and undogmatic minds in a democratic spirit. As was once said of another democracy: 'Here each individual is interested not only in his own affairs but in the affairs of the state as well; even those who are mostly occupied with their own business are extremely well-informed on general politics—this is a peculiarity of ours: we do not say that a man who takes no interest in politics is a man who minds his own business; we say that he has no business here at all.'² Our volume will have fulfilled its purpose if it is able to engage the citizens and friends of India to reflect upon and discuss the nature of India's agenda as the present century comes to an end.

In what follows, we shall give a synopsis of what we consider to be the upshot of each chapter, suggest what seems to us to require further thinking, and indicate certain general conclusions that the results may seem to point toward.

We begin with a proposal by James Manor to characterize the state of modern Indian politics employing three related notions of awakening, decay and regeneration. The sheer practice of democracy on a vast scale for more than forty years now has extended and deepened political participation in the country. This experience has created an increasingly mature electorate, more and more

aware of the duties of elected officials and prepared to throw out incumbents periodically. Equally, there has been an erosion in the autonomy and integrity of many public institutions in the last twenty years. This kind of decay has had a number of causes, and Manor suggests a main one to have been an increasing lack of internal democracy within political parties and especially the Congress. The two trends of awakening and decay would make for a dangerous and unstable combination, but Manor sees the working of democratic institutions to be regenerative in the longer run, owing to a large stock of political capital in the country in the form of people with the political skills of dialogue and accommodation.

Next Paul R. Brass surveys the politics of language and religion, a subject important to an understanding of the problems of Indian pluralism and federalism. Certain principles had seemed to be implicit in the early years of the Indian Republic in the Union Government's policies with respect to the creation of individual states. Namely, there seemed to be a refusal to create states by religious demarcations, to establish linguistic states without evidence of mass support, or to reorganize existing multilingual states without wide agreement. These principles appeared to be put into effect with major success in south India and western India, where stable solutions were found in Maharashtra, Gujarat, Madhya Pradesh, Tamil Nadu, Karnataka, Kerala and Andhra Pradesh. It is in contrast to these achievements that the continuing instabilities in Punjab and Assam have to be seen. Brass asks whether the failures so far have more to do with problems intrinsic to these regions or with an abandonment of a principled approach on the part of the Union Government. It is suggested that there has been an erosion in the secular consensus assumed in the working of the Union Government in the early decades, with increasing political manipulation of linguistic, religious or other group differences taking its place.

Bhagwan Dua focuses detailed attention on this last point in the case of Punjab and the northeast, arguing that the division between effective Union and state powers has been altered drastically in recent years. In particular, the credibility of state governments has been undermined when the Union Government has entered, for political gains, into direct negotiations with fissiparous or secessionist forces in disregard of the competence or jurisdiction of a state's political institutions.

Turning to economic questions, we have first a critical review and analysis by T.N. Srinivasan of the aims, methods and main results of official economic policy in India in the last forty years, and the system of foreign trade and payments which has accompanied it. Srinivasan notes the constitutional imperatives which seemed to move economic policy in India: every government should strive to improve the material well-being of its people, and this is what the 1950 Constitution said in the Directive Principles. The practical question is of the means to be adopted and the paths to be taken towards such an end. The key decisions taken at the time envisaged the rapid industrialization of the country through import-substitution, with the idea of raising mass incomes and transforming the comparative advantage of the country in the long run. But the long run has come and gone in the last forty years, and the main results of the path chosen appear to have been a drastic reduction in India's significance in world trade and payments; a mercantilist system of imports and exports; controls on foreign exchange, preventing the rupee from being the kind of hard convertible currency it used to be, as well as debasing its function as a store of value for domestic citizens; and a maze of discretionary domestic controls over individual enterprise and initiative in a country with many millions of people possessing enterprise and initiative; all of which have contributed to the general corruption of government and public institutions. What has been achieved in return is a measure of self-sufficiency as well as some limited insulation from the risks and uncertainties which may have accompanied a more competitive position for India in the world economy.

It is in view of such results that the next chapter assumes its significance. Of all the advice that the Government of India had elicited from numerous British and American economists in the 1950s and 1960s, Milton Friedman's memorandum of 1955 was unique in its content and also in the fact that it was wholly neglected and has never been published before, as far as is known by its author or by the editors. The aims of economic policy were to create conditions for rapid increase in levels of income and consumption for the mass of the people, and these aims were shared by everyone at the time from P.C. Mahalanobis to Milton Friedman. The means recommended were different. Mahalanobis advocated a leading role for the state and an emphasis on the growth of

physical capital. Friedman advocated a necessary but clearly delimited role for the state, and placed on the agenda large-scale investment in the stock of human capital, encouragement of domestic competition, steady and predictable monetary growth, and a flexible exchange-rate for the rupee as a convertible hard currency, which would have entailed also an open competitive position in the world economy. While it is impossible to tell what we would have been like today with an alternative history for forty years, it seems clear that if such an alternative had been more thoroughly discussed at the time, the optimum role of the state in India today, as well as the optimal complementarity between human capital and physical capital, may have been more easily determined.

The question of the present state of the finances of the Government of India is addressed by Amaresh Bagchi. There has been, in the last forty years, no lack of spending by the Union or state governments of the tax-resources raised indirectly or directly from India's citizens. Much of the spending has been on the industrial and financial structure which has come to be acquired by the Government. But only a third of the investment of public sector firms derive from their own savings, the rest being induced from the savings of households. Bagchi reports that there has been an inflationary gap made up for mainly by internal borrowing. The increasing dependence on borrowing has led to a high and increasing internal debt relative to gross domestic product. Now high internal debt in and of itself need not be a bad thing. If the public debt in India is being used to produce valuable assets which generate a net income for public sector firms, the size of the debt relative to gross domestic product would not matter much. But if, instead, the public debt is being used, in effect, to sustain the net losses of public sector firms, then it should be a matter of serious concern. Government ownership has come to extend across all kinds of industries, from iron and steel to railways, airlines, banking and insurance to hotels, tourism, shipping and breweries. With few notable exceptions, most of these may well not be technically or financially efficient or profitable. (Especially, and most dangerously, perhaps in the banking industry). The aggregate net present worth of such firms as a whole may well be negative, and possibly very negative indeed if measured at international relative prices in the open world economy. If it is this de facto bankruptcy which is

continuing to be financed by increasing issue of public debt to households, and if this debt is in turn being inflated away through monetization, by the Government compelling the Reserve Bank of India to hold a large fraction of Treasury securities and inducing high money supply growth rates, then the macroeconomic result is that the losses of the public sector are in due course turning up as inflation for the general public, whether a suppressed inflation in the form of scarcity of goods, or an open inflation in the form of a continually declining domestic value of the rupee relative to other stores of wealth (such as land). The social costs of such a loss of confidence in the currency are well-known. They include unanticipated losses or gains for different classes of people (transferring real resources from creditors to debtors, where the Government is again the largest debtor in the economy), and the engendering of social conflict and a general loss of credibility in the Government, leading to a free-for-all atmosphere of anarchy and profiteering.

From considerations of general economic policy we next move to rural India. Given the vast population of our innumerable villages, and the relative meagreness of the tangible assets or external goods owned by much of this population, it is almost true to say that whatever is good or bad for Indian agriculture is good or bad for India. Besides, the achievement of a civilized rural life may bring into better balance the continuous net inflow of immigrants from country to town, easing the problems of urban India. The myth of Indian farmers being somehow less motivated or economically rational than other farmers in the world has been by now firmly exploded.³ Differences between Indian and international agricultural productivity may have to do more with differences in agricultural knowledge, broadly defined. From long before the Industrial Revolution, a quiet revolution had been in progress in European agriculture, while most Indian farmers today continue to plough, plant, irrigate and harvest in traditional ways. Whole European centuries might seem to co-exist in a single day in the life of rural India. Among the sources of higher productivity could be better technical knowledge suited to local conditions as well as economic incentives to adopt such knowledge. The marginal cost of spreading the results of agricultural research are relatively low, and there have been some spectacular advances in food production thanks to the adoption by many farmers of more productive farming techniques. (Of course some rural communities in India, like

the Amish of Pennsylvania, could foreswear modern knowledge, but that would be a deliberate and informed choice).

Kalanidhi Subbarao provides, in his chapter, a critical survey of the economics of food and agriculture. Subbarao describes the successes of Indian agriculture as well as some of the problems which have remained or have arisen recently. He points out that technical gains have been far from uniform between crops or regions, and that ecological and environmental concerns are only recently being addressed. On whether Indian agriculture has been on balance subsidized or taxed in recent decades, all things considered, it does not seem clear what the answer is. As a general rule, public benefits received should be paid for by those who receive them, and many direct subsidies and credits have been received by Indian farmers while there has been almost no direct taxation of agricultural income or wealth. On the other hand, there may have been indirect discrimination against agriculture via the general policy of industrialization and foreign trade and exchange controls described by Srinivasan. There is also the policy of annually declaring agricultural support prices, related as this is to the vast country-wide system of public holding and distribution by ration of grain stocks. Subbarao points to the widely known fact that this system serves urban India much more than it does rural India. All things considered, the political economy of Indian agriculture would seem to remain a subtle and complex subject without easy or firm answers.

This discussion of agriculture is followed by an essay on the economics of health in India by Anil Deolalikar. Important advances have been made in the last forty years in improving nutrition, reducing infant mortality, improving maternal care and education, and eradicating many diseases. All these have contributed to a healthier population with longer life-spans than ever before, and hence to a larger population. But basic problems remain. While many Indians may not be overly materialistic, everyone wants a clean and healthy life for themselves and their children, and it is appalling that the basic quality of life of so many people and especially children in India has remained as poor as it has. In particular, the absence of fresh water and proper systems of sanitation as local public goods for scores and possibly hundreds of millions of people today remains a shocking fact, related to which is the prevalence of endemic low-grade diseases and the relative

lack of measures of preventive medicine and public hygiene. Such a situation is partly, of course, a function of the habits of people, for example rural migrants who naturally tend to recreate rural life within the towns and cities. But these habits are also a function of the division between private and public property rights, many in India being extremely hygienic within private domains and notoriously unhygienic in public domains, which may have to do with private domains being extremely well-defined while the public domain is ill-defined. Insofar as this is true, a policy to change habits in a favorable direction for better public health would be one of expanding the former and contracting the latter.

There is a chapter missing on education, defined to include both the public schooling of children and the imparting of knowledge and skills within the family. As such, education may well be the surest source of the long-term economic growth of a nation. It is uncontroversial that governments have a role in education, though the nature and scope of such a role may be expected to vary with the level of education and the purposes and circumstances at hand. In particular, there is an important distinction between the public financing of education and the actual provision of education by government schools. There is unanimous agreement among economists on public financing at primary and secondary levels, but less agreement over whether the state needs also to involve itself in actually providing schools, writing curricula, training and hiring teachers and so on, especially at higher levels.⁴ Although the editors failed in attempts to commission a chapter on this crucial subject, a brief evaluation of the facts of Indian education may be given here, relying on recent work of Jandhyala B.G. Tilak and Kalanidhi Subbarao.⁵

During the period of foreign rule and the nationalist movement, little if any Government attention had been given to the literacy or schooling of the masses of the people of India. One of the signal achievements of independent India has been the sheer numerical growth of primary and secondary education, and the increased rates of literacy and numeracy as a consequence.⁶ At the same time, fundamental problems have remained with the system of Indian education. Among these are the relative neglect of education in budgets, plans and national politics as a whole; the continued relative neglect of primary education and a bias towards higher education in spite of social rates of return on investment being

higher for the former than the latter; low attendance, especially at rural schools and their sheer absence within reasonable walking distance of many villages; and the relative lack of educational incentives and opportunities for girls and members of the scheduled castes. As recently as 1986, two out of five primary schools were said not to have a blackboard, two out of five had no permanent all-weather building, and three out of five had no facility for fresh drinking water. Most such schools are rural. An illustration given by Subbarao of the distribution of resources within the educational system is this. In 1976/1977 estimates of annual costs per pupil for primary and higher education were Rs. 152 and Rs. 1,353 respectively; annual subsidies per pupil Rs. 150 and Rs. 1,116 respectively. A total of Rs. 6,243 million of public money was spent on higher and professional education that year; if 50 percent of this had been recovered through fees or user-costs and the resulting savings of public revenue diverted to primary education, literacy might have been possible for about 20 million more children that year. Over the period 1976-81, such a policy might have added 100 million more literates within the population, making the literacy rate about 51 percent by 1981 instead of the actual rate of about 36 percent.⁷ The transfer of resources from elsewhere in the budget towards education could have of course added even more.

The volume is closed with an essay by B.R. Tomlinson. Where the preceding chapters refer to the decisions of the 1950s and the consequences that have flown from them, Tomlinson describes the historical context in which the initial decisions came to be made, and suggests an explanation of how they came to be what they were. Namely, the structural position of India's economy in the aftermath of the Depression, the World War and Partition, was such that little except a regime of domestic and foreign economic controls could have been expected to continue. It was not merely that the ideas of Fabian socialism suddenly took over Indian economic policy and banished liberal political economy, but rather that a liberal political economy may have been reasonably beyond the imagination of most people in the circumstances of the times. It may have required an unreasonable amount of foresight and courage on the part of the political leadership at the time to have done very much different from what it did.

Taken together then, two broad questions addressed by the diverse

authors of this volume have had to do with the most stable structure of the modern Indian polity, and with the nature and extent of the role of government in the Indian economy. Both questions can be assimilated into the rougher question of the nature and power of the present Indian state relative to the political and economic freedoms of India's citizens, which is in turn a function of the maturity of citizens and the quality of political discussions in the country.

The three chapters by Manor, Brass and Dua in Part I of the volume point to certain fundamental problems of the present system, especially in its federalist and pluralist aspects. The decay of internal democracy within political parties, especially the Congress, has led to a kind of authoritarian centralism in the working of the Union Government. This has been accompanied by the awakening of large parts of the electorate, a heightened sense of group identity and differences and increasing political manipulation of such differences. A pessimistic interpretation of these trends would be that the federal and secular principles which seemed to guide policies in the early years of the Republic have become perverted. A less pessimistic interpretation would be that certain structural and systemic problems which had not been foreseen or did not exist then have now manifested themselves.

The five chapters of Part II by Srinivasan, Friedman, Bagchi, Subbarao and Deolalikar all point to a need for frank discussion of fundamentals with respect to the nature of economic policy in India, and the relative distribution of the public revenues within the country. It is impossible not to attribute the lack of local or state-level public goods (such as roads, fresh water or primary education) for millions of people in India to the fact that the spending of tax-resources by the Union and State Governments continues to be reckless and wasteful in many directions, with little or no real thought being given to expected rates of return on public investment. If the actual destinations of India's public revenue in recent years have been often without social benefit, when other destinations have been possible for these same revenues with obvious benefit especially to the poorest sections of the population, it would be no more than commonsense to recommend a change in destinations.

Lastly, Tomlinson's thesis may help to reduce the noise from intellectual dogmas and ideologies of all kinds in the public debate

in India and replace it with some practical commonsense. If the decisions of the 1950s had less to do with intellectualism and more with specific circumstances than has been supposed,⁸ then the debate today as we enter the 1990s about the results and reform of those decisions can and should also proceed less on intellectual and more on practical grounds—i.e., less about right versus left, or liberalism versus socialism, or individualism versus statism, or Gandhianism versus industrialism, or Hinduism versus Marxism etc. etc., than about what the facts and problems happen to be and what can be done about them.

Here we should make explicit that while it is hoped this volume may contribute to a reasonable discussion of modern India's agenda in the 1990s, the coverage offered is far from comprehensive and no pretence is made otherwise by the authors or editors.

We have chapters missing not only on education but on a wide variety of subjects. Among a number of important subjects missing are industrialization and urban planning; air and water pollution and the degradation of the natural environment in general; the economic geography of floods and droughts; the system of indirect and direct taxes, incentives for tax-evasion, and the social consequences of the 'black' economy; the official and unofficial housing market, the decay of the inner-cities and the control of rents; the state of the civil and criminal law and the judicial and penal systems; the state of the highways, waterways, railways and systems of communications, all of which are vital for domestic commerce; the state of banking and insurance, and financial and credit markets; the state of labor laws and industrial relations; the state of national monuments and archives, and indeed the state of the culture and civilization of India as a whole.

Moreover, it can also be argued that there is need for discussion of fundamental change in the rules within which the games of democratic politics have been played in India, i.e., in the Constitution itself. The 1950 Constitution was a marvellous document at the time. Since then it has become too bulky, too full of exceptions and qualifications, and far from comprehensible to the ordinary Indian. A neater, cleaner and shorter document may be sought which keeps the best of the 1950 Constitution and integrates it with the experience of forty years as well as the best of foreign constitutions, with the aim of promoting a system with less uncertainty and more stability.

Public discussion of constitutional reform could focus on questions such as how a stable federal polity can be designed within which a wide array of national and regional parties may be expected to be in power at any given time in different states, some of which will be in opposition to the party in power in the Union Government. What should be the optimal division of powers between Union and state responsibilities given that such a situation has now become commonplace in Indian politics? As a general rule, responsibilities assigned to or assumed by an agent must be practical and feasible, or dissatisfaction and bitterness must be expected when failure inevitably occurs. The practical experience of forty years of free India's political and economic problems may suggest that questions of fundamental constitutional reform have to be addressed once again, with respect to the responsibilities that have been either assigned to or come to be assumed by the Union and State Governments, as well as relative to the freedoms of India's citizens.

All such matters may be considered genuine concerns on the agenda of a civilized society and call out for the attention of India's citizens and statesmen. But perhaps the most important subject we have not dealt with here has to do with the subtle, complicated and unresolved set of questions over the long political and cultural intercourse between India and the Islamic civilization, with the possibility of a modern secular India, with what is Indian and what is not and whether it matters, with the meaning of a secular Indian identity and indeed the meaning of an Islamic identity as well. Questions of the legal custody of the few square miles of Srinagar Valley or the few square yards in Ayodhya are minor and superficial derivatives of these larger questions. Yet these questions of identity are related to the nature of the Indian state as well, and the intractability of the one has affected the intractability of the other.

Often when there seem to be irreconcilable differences, 'it is a heuristic maxim that the truth lies not in one of the two disputed views but in some third possibility which has not yet been thought of, which we can only discover by rejecting something assumed as obvious by both the disputants.' In the aftermath of the Second World War, a certain set of decisions and definitions were hurriedly made in the subcontinent, especially by the departing British, and a certain set of events took place. It has been assumed as obvious

by the elites of the subcontinent that the citizens of the subcontinent must remain prisoners of those definitions and contingencies forever. Yet the problems of Ayodhya or Kashmir or Sind, Punjab, Assam, Tamil Nadu or Jaffna are not independent of one another. For forty years the international context was such as to constrain or prevent any real thought to challenge the post-war definitions, and there was little incentive for the opposing elites to find room for reasoning and cooperation rather than conflict. But the last few years have seen sudden changes take place in the world political order, the most profound of which continue in the Soviet Union and Europe. It is in such a changed context that the problems of the subcontinent have to be redefined and re-examined at their roots, and a search made for solutions. There would be a further lapse from responsibility on the part of the subcontinent's elites if such an opportunity did not come to be taken.

Finally, no discussion of the subcontinent's political economy can ignore the fact of the monumental poverty of external goods on the part of a vast population, in contrast with a fairly large class of people with adequate livelihoods, in turn contrasting with small islands of indolence and conspicuous consumption. Benjamin Disraeli said of Victorian England that it consisted of two nations. The Indian subcontinent today consists in many respects of two nations living side by side, the real division being much less longitudinal on religious or communal lines (as intended by Muslim separatists at the time of Partition and Hindu imperialists today) as it is latitudinal on class lines between 'bhadralok' and 'janata', middle class and working classes, bourgeoisie and masses, 'nomenclatura' and proletariat. The sheer numbers can justify speaking of whole nations, the janata in India alone consisting of something like seven hundred million people, the bhadralok of perhaps one hundred and fifty million. The Indian bhadralok on their own constitute one of the largest nations on earth.

The bhadralok are not to be distinguished from the janata by any self-styled civility or modernization, nor is there any inevitable conflict which will lead to the victory of one and decimation of the other, nor is it that one derives its income from productive effort or enterprise and the other does not. A more effective criterion by which to distinguish the two nations of India may have to do not with work but with leisure, as well as with the kind of capital that

comes to be inherited over time. The janata are the un leisured nation of India, people who mostly due to the meagreness of their initial resources come to possess little or no leisure in the course of their lifetimes. They are scattered and illiterate, without connections in high places, often too involved with the hardships of daily life to care for much else. They eat and sleep to maintain the minimum energy needed to survive, reproduce and send their children to school or work, travelling through life day by day and week by week. They may have some short time devoted to religion or entertainment, but life is too often too hard, not so much without happiness or culture as without much time for either. Expectations of what life has to offer may be unambitious and yet unsuccessful.

Inequality from an economic point of view may consist of the fact that the poor do not inherit any leisure from the past. They do not inherit the savings of their parents and ancestors because most did not have parents and ancestors who had any savings to leave behind. Capital and the income it generates, and the consumption which such income makes possible, are among the most subtle notions of political economy. As a rough approximation, if we distinguish between human capital, physical and financial capital, and social and political capital, it may be said that *the inheritance of economic inequality in India may consist of the inheritance by the janata of no form of capital except their own stock of human capital*. There is little or no inheritance from parents of savings or any other form of capital. Hence the janata are also the 'garib lok', the masses are also the poor folk.

By contrast the bhadralok are also the leisured nation of the subcontinent, with the time and inclination to praise or decry the state of the culture or the economy or the prime minister, to visit or return from the outside world ('baahar') to the subcontinent or vice versa, to take a walk in the morning or a nap in the afternoon, to express compassion for or embarrassment about the existence of the janata (especially in relation to the foreigner since the bhadralok have to explain both their privileged position relative to the janata and their often underprivileged position relative to the foreigner with whom they desire to consort), to study the janata or lead them in revolution or take measurements of them, and to read, write, edit or publish books such as this one. The bhadralok are the 'respectable people' of the subcontinent, with names,

family histories and reputations, literate and often highly educated, bilingual at least, with an inheritance of or illusions about acknowledged places in society. They inherit from their parents, and save for their children, physical and financial capital, invest in their human capital, and bestow to them as much social and political capital as they can. The mercantile and industrial bhadralok own and transfer to their children relatively more physical and financial capital, while the managerial, administrative and professional bhadralok may transfer relatively more social and political capital. At the apex of both groups is an elite amounting to a few million people, united perhaps by their membership or attempted membership of the post-British social clubs and centers of intellectualism, or foreign universities and the lower middle classes of Britain and North America.

What may be expected in the long run is mobility between the two nations and in both directions. Through indolence or bad luck, families can fall by a half or a third of a social class each generation, or move in the opposite direction through chance or cunning or enterprise and effort. It is an essential feature of mass economic development that there will be net mobility upwards in the long run, and an attendant breakdown of social barriers and the gradual assimilation of classes and castes into one another. Contrary to an assumption of the working classes being united in their despair and contempt for the middle class, and motivated in their desire to bloodily dispose of them, it may be more accurate to say that what un leisured people want most (after employment, food, shelter and clothing) is what they value most at the margin, namely, leisure. What the working classes desire most may be something like the kind of life as the bourgeoisie. Let aside there being a potential or open conflict arising from the janata against the bhadralok, the truth of the matter could be there is a desire of the janata to have at least some leisure like the bhadralok.

If this is an accurate assumption, the main source of conflict between the two nations of India or the subcontinent could be different from what is supposed by many people. Instead of being revolutionary in nature and deriving from below, the source may be reactionary in nature and amount to resistance from the top. Like all cartels, the bhadralok may want to preserve their numbers and not look with favor at the prospect of large-scale mass economic development, entailing as this will greater competition

on all fronts, the erosion of privilege, the breakdown of social barriers and the assimilation of classes into one another.

The Jacobin/Bolshevik/Maoist method of reducing inequalities was to expropriate physical and financial capital, and decimate social and political capital and all that stands in the way of such destruction. The upheaval and chaos of such blood-letting leaves a new order which is, or seems for a moment, more egalitarian than the regime it replaces. But it also leaves a society without knowledge of its past, alternately enervated by its present and terrified of its future. Recovery from such a state of near social death has been long and hard and painful, where it has happened at all. Despite the wishes of a few, India does not seem likely to experience such social death on a national scale, although the temporary effects of terrorism and civil chaos in pockets of the country would seem to be similar.

A more farsighted method would be via the *creation* of capital for the janata, increasing their sources of income and consumption and thereby reducing the inequality of wealth and political power. It would mean investment in the only form of capital that the janata have: their own human capital. It would mean fundamentally a change of focus away from the theoretical and grandiose in the drawing-rooms and corridors of New Delhi (and Washington), and towards the simple and commonsensical: stopping the wastage of tax resources; making the currency sound at home and abroad; redirecting public investment toward public goods such as fresh water and sanitation; and fostering a civilized rural life, built around village schools with blackboards and chalk, with playgrounds and libraries and hot meals, with all-weather buildings and all-weather roads to their doors.

India today resembles a gigantic closed city with high walls and few gates. Within the walls are concurrently represented many different ages of man, from pre-historic and early Aryan to medieval and Moghul to Dickensian and American, the members of each age having some common and some individual sets of life-expectations, yet all being due to enter the next century together.¹⁰ Outside is the rest of human civilization and the free circulation of gold and foreign exchange. Nearabouts the gates of the city, and with the ability to travel in and out, are the few million of the elite. If the walls of the city are to be knocked down or at least the gates

opened and kept wide open, it will have to be the elite who do this or consent to have it done. If it is done properly, after adequate preparation of the economic and political expectations of citizens, there may be many positive results, not only for the economy but also for the culture and civilization of the subcontinent as a whole. The free flow of ideas and opportunities across national borders; the freedom to travel in the world; the free movement of goods and capital; the freedom to save one's tangible wealth, small as this may be, in whatever form or currency one considers best—these are fundamentally important freedoms which have been denied to most of the people of the subcontinent thus far and yet are taken for granted elsewhere in the world. There seems little reason to doubt that if such freedoms come to be gradually exercised by the janata there would be a permanent trend towards an increase in mass income and consumption.

Yet there are genuine questions of sovereignty which have to be anticipated as well. The consequences of a true opening are not fully or easily foreseeable. The prompt arrival of new East India Companies may be expected. Will there be enough competition between them? Or will the elite come to be further subverted, taking the first Indian Republic with it? After the long experience of foreign rule and nationalism and independent democracy, is the Indian polity mature enough today to survive and gain from such an opening, or will it collapse once again as it did in the eighteenth century? The spectres of Plassey and Avadh must haunt every Indian nationalist, even as the hopes of a free economy and a progressive culture and an open civilization, beckon from the future. Is it a silent and implicit fear of this sort which constitutes the only possible rational barrier to greater freedom? Has the continued poverty been, in effect, the cost of nationalism? These are hard questions to which answers may not be found easily. It is hoped by the editors that the present volume may engage the citizens and friends of India to reflect upon them.

POSTSCRIPT

The project of which this volume is a part was started in 1986, at a time when the Rajiv Gandhi government was at the peak of its

popularity and effectiveness. It was resolved at that time by the editors that a practical and a long-term perspective would be taken.

In September 1990, owing to an initiative of Mr. Siddhartha Shankar Ray, a copy of the manuscript of this volume was received in hand by Rajiv Gandhi, who was then Congress President and Leader of the Opposition in Parliament. (Although an approach was also made for the manuscript to reach the V.P. Singh government, this did not succeed.) Mr. Gandhi had the manuscript circulated without delay among some of his close colleagues. At the same time, he appointed an advisory committee consisting of General V. Krishna Rao, Mr. M.K. Rasgotra, Dr. V. Krishnamurthy, Dr. A.M. Khusro, Mr. Sam Pitroda, and the Indian editor of this volume, to make recommendations as to new directions for the country over the long-term.

Thus it is possible—but now hard to confirm—that some of the chapters of the present volume have indirectly contributed to the origins of the new policies announced by the Narasimha Rao government. Certainly the depreciation of the rupee and the announcement that the rupee will in due course be allowed to float freely, the announced removal of all unnecessary internal controls in the economy, the announced transition from the public towards the private sector, and the announced intent to cut wasteful government expenditure are measures which are almost wholly consonant with the thesis of several chapters in this book, especially those by Srinivasan and Bagchi. Whether or not the announced measures can be sustained or will even succeed in passing the parliamentary tests of India's democracy, they have had a healthy effect already of stimulating the country into a public debate about where we are going and how we might best get there. And certainly, if the economic debate of the 1950s is being reopened in a fundamental way in India, the publication here for the first time of Friedman's 1955 memorandum cannot be more timely. As for the success or failure of the proposed new directions, these must await evaluation in the future.

If the practical purpose of the volume has been vindicated by its possible relevance to the reopened public debate on fundamental economic questions, the long-term perspective has been vindicated by more sorrowful national events, namely, the gross instability of

the Union government throughout 1990 and 1991, and the assassination of Rajiv Gandhi himself. These events point to the urgency of reopening a fundamental debate on political and constitutional questions as well, not only in the Indian Republic but in the subcontinent as a whole. It is to be hoped that the political chapters in this volume may contribute to that discussion in a reasonable way.