

FOREWORD

to Friedman on India

In the heyday of Indian planning, in the 1950's, the government received advice from most of the leading economists in the world. It would be fair to say that nearly all of them supported the broad framework of the Second Five Year Plan and the *dirigiste* system of licensing and controls it inaugurated. There were only three notable dissenters from this intellectual consensus: Professor Shenoy from the University of Gujarat, Professor Bauer from the London School of Economics. The latter's contribution is not well known, and the Centre for Civil Society is to be commended in bringing out this pamphlet containing the two pieces Prof. Friedman wrote in the 1950's and early 60's about Indian economic policy.

It is a mark of the continuing and tragic failure of this *dirigiste* system - which the Manmohan Singh-Narasimha reforms only partially dismantled-that, nearly a half century after they were written, these essays are still so relevant. The shameful neglect of human resource development, the counter-productive policy of industrial reservations which creates an industrial caste system, the limits of deficit financing, the 'rent-seeking' resulting from the politicisation of economic life, and the need to remove all trade and exchange controls to be replaced by a fully convertible floating Rupee, are all themes adumbrated in these essays which are still of importance for reforming Indian economic policy. Rather than being a mere historical testament, these essays point to areas where reforms are still needed if India is to redeem the pledge Pandit Nehru made on the eve of Indian independence 'to wipe every tear from every eye', but which the sclerotic economic system he created has made impossible to fulfil for half a century.

On a personal note, having been brought up in the shadow of the Nehruvian settlement, it took a stint in the Planning Commission in the early 1970's to make me question the 'catechism learned by rote' (p.20) identified by Friedman. I was forced to see the fundamental importance of Hayek's claim¹, which Friedman also emphasises that, the division of knowledge in any real economy makes any form of centralised planning infeasible, leading to worse economic outcomes than even the most imperfect market economy which makes use of the necessarily dispersed and decentralised knowledge required for making rational economic decisions. I was on the road to becoming a classical liberal, and wrote a small book² to try both to understand and question the intellectual climate of opinion fostered by 'development economics' which Friedman quite rightly saw as providing an important part of the explanation for the persistence of failed economic policies in India.

My only quibble with Friedman in these essays is his claim that the Hindu reverence for the cow is irrational! Elsewhere,³ I have tried to explain both how the caste system arose and why, despite appearances it was not necessarily a brake on economic progress, and why the ban on cow slaughter is

¹ see F.A.Hayek: "The use of knowledge in society", *American Economic Review*, vol.35, 1945, pp.519-30, reprinted in his *Individualism and Economic Order*, Routledge, London,1976.

² D.Lal: *The Poverty of 'Development Economics'*, Institute of Economic Affairs, London 1983, Harvard University Press, Cambridge Mass, 1985; 2nd revised and expanded edition, Institute of Economic Affairs, London 1997, MIT Press, Cambridge Mass, 2000, Oxford University Press, New Delhi, 2000.

³ D.Lal: *The Hindu Equilibrium*, Clarendon Press, Oxford.

not as uneconomic as it seems. It is not these social customs but the *'traisons des clercs'* of the intellectuals of the 1950's and early 60's which needs to be castigated for perpetuating India's ancient poverty. But there were, as these essays show, even in those dark days, there were a few important voices, which if heeded, would not have led to these last fifty years of wasted Indian promise.

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