Seven

Capitalism for the Rich, Socialism for the Poor

Those who have given themselves the most concern about the happiness of people have made their neighbours very miserable.

—ANATOLE FRANCE

While I was studying in America, India had begun to implement with much vigor the ideas and theories of the development economists. I got a first taste of where we were headed when I came home during my summer vacation. I spent several weeks in Ludhiana, in East Punjab, where my grandfather had settled as a refugee. Ludhiana went on to become famous for creating a small-scale industrial revolution in the fifties and the "green revolution" in the sixties. When I visited my grandfather, I found that he would spend the entire morning reading the *Tribune* in his courtyard, and complain to anyone who would listen that Nehru was recklessly wasting the taxpayers' money. He felt that Nehru's state-owned companies were being managed by civil servants, people who had no training in running commercial enterprises. Nor were they asked to make a profit. They were recklessly hiring workers without any thought to performance. He angrily pointed to a front-page news story in which Nehru had resolutely defended their losses in Parliament, saying that their job was not to make a profit but to meet social objectives. "The public sector has become the politician's cow—to be milked forever," he groaned. He was no economist, but he could tell when common sense was defied. His lawyer's sensibilities were also wounded by Nehru's disregard of private property. The government had nationalized a number of industries without adequately compensating the owners.

Grandfather was ahead of his time. All his friends and neighbors thought his views odd, because everyone was hopelessly under the sway of Nehru's ideas. He predicted that the bureaucracy's growth would spread like cancer, lead to corruption, and threaten liberty one day. He did not think that Nehru had his feet on the ground; his talk of socialism put him off, just as my uncle Sat Pal's Marxism did. Nehru defended himself by saying that he admired the Soviet Union for having transformed a backward peasant economy into a world power, but he did not approve of Stalin's methods. His ideas were closer to those of the Fabians and other English intellectuals between the wars, who advocated the rationality of central planning within a parliamentary system that protected civil liberties and democratic rights.

In those early years, there was, in fact, a competing philosophy to Nehru's. It belonged to Mahatma Gandhi. It was a vision of a republic of self-sufficient villages employing indigenous technologies, materials, and talents. Gandhi's guiding principle was to achieve self-reliance, in the village for the basic needs of the people—food, clothing, and shelter. Such an approach, Gandhi felt, would avoid mass migration to the cities, with the attendant problems of unemployment, homelessness, and crime. Nehru thought Gandhi's vision hopelessly idealistic, but he agreed with him about rural development, and he created a community development program in the 1950s, funded partly with American aid. Begun with great fanfare and enthusiasm, the program soon became hopelessly bureaucratized. Like many other well-intentioned programs, it failed because Nehru did not have the patience, the managerial skills, or the passion to implement it. Nor was it Gandhian in spirit—it was "top down" rather than "bottom up."

Surprisingly, Indian businessmen also supported Nehru's ideas on central planning. They were seduced by the thought that piecemeal growth based entirely on market forces might not bring about rapid development. They too believed that free trade and the laissez-faire policies of the British Raj had been at the root of the country's economic problems. Moreover, they had benefited from the Raj's interventions in the interwar years. They had gained enormously from high tariffs on imported goods since the 1920s, and it was natural that they should want them to continue. However, they resented Britain's neglect of India's power, roads, and other infrastructure.

In 1944, India's leading capitalists came together in Bombay and crystallized their vision for a modern, independent India. They included the giants of Indian business—J. R. D. Tata, G. D. Birla, Lala Shri Ram, Kasturbhai Lalbhai, Purshotamdas Thakurdas, A. D. Shroff, and John Mathai—and they produced what came to be known famously as the "Bombay Plan." The Bombay Plan argued for rapid and self-reliant industrialization. Although the industrialists recognized the need for foreign capital and technology, they wanted it to be under the strict control of the state. They preferred foreign debt or loans rather than equity or entrepreneurial investment, and they wanted foreign ownership to be prohibited in essential areas like banking, insurance, power, and aviation. Where it existed, they wanted it nationalized. Ominously, they were willing to accept "important limitations on the freedom of private enterprise," and they agreed that "rights attached to private property would naturally be circumscribed." Even more disastrous was their acceptance of a vast area of state control—in fixing prices, limiting dividends, controlling foreign trade and foreign exchange, in licensing production, and in allocating capital goods and distributing consumer goods. Without realizing it, the Indian capitalists had dug their graves. Indian businessmen must thus share the blame for misreading history.

During the last decade of the Raj, the government's involvement in running the economy had grown. With the coming of the Second World War, rationing, price controls, and other bureaucratic interventions had become necessary. They now provided the politicians and bureaucrats with ready instruments to control the economy of independent India. While in other countries these controls were gradually dismantled by the end of the war, they continued in India.

India was not unique in wanting to develop and industrialize rapidly through the agency of the state. All the countries that became independent after the war shared this ambition. They followed India's example, although India was unusual in wanting to do so by democratic means. Who was responsible for taking India on the path of democratic socialism? Nehru certainly, but also the extraordinary Bengali Brahmin, Prasanta Chandra Mahalanobis, who was the central intellectual figure of the 1950s. He symbolized a distinctive feature of the Nehru era: to bring the rationality of technocrats, economists, and scientists to bear on decision making. Professor Mahalanobis was the éminence grise at the Planning Commission, which was situated only three kilometers from our house in Kaka Nagar. Throughout the 1950s the Planning Commission enjoyed unparalleled prestige. Mahalanobis was a man of science, but he was also a philosopher, literary critic, and Sanskrit scholar. He had studied mathematics and physics at Cambridge, and had founded the Indian Statistical Institute in two rooms at the Presidency College, Calcutta, from where he published *Sankhya,* a journal on statistics, which later became the influential house journal of Indian planners. Not only was he a close associate of Rabindranath Tagore, he also knew more about the canon of the poet's early writings than the poet himself could recall.

It was Mahalanobis's deep commitment to rationality that attracted him to Nehru. He believed that the characteristic mark of the modern age was a scientific temper, which "subjects natural phenomena to rational explanation and human control, and provides the great breakthrough of the human intellect." Mahalanobis wanted India and other backward countries to place men and women of scientific outlook in positions of responsibility. He regretted that India's caste-based society did not encourage a spirit of rational inquiry. We used to have a great tradition of respect for the Brahmin, as a teacher, he used to say, but now we needed to build a tradition of appreciation for science and scientists. The idea that science could provide the answer to raising India's economy appealed to Nehru. Mahalanobis suggested to Nehru that statistics could become a powerful tool for economic planning. Although he was not an economist, Mahalanobis quickly mastered the new subject and began collecting statistical data on national income in 1949. Such was the power of his mind and personality that he soon became the central focus of policy making and began to dominate the planning process.

Mahalanobis had a profound effect on Nehru's thinking, although he held no official position. His title, "Honorary Statistical Advisor to the Government of India," certainly did not reflect the extent of his influence. His biggest contribution was the draft plan frame for the Second Five Year Plan, possibly the single most important document in the 1950s and "possibly one of the most important documents in the world at that time." In it he put into practice the socialist ideas of investment in a large public sector (at the expense of the private sector), with emphasis on heavy industry (at the expense of consumer goods) and a focus on import substitution (at the expense of export promotion), besides other follies which were inspired by the USSR and China. No wonder he became the darling of the left.

The plan frame proposed "a two-pronged attack on the problem of breaking through India's static economy: the creation of a large machine-building industry as a basis for the expansion of secondary industries; and decentralised cottage industries to create jobs for India's army of unemployed." The latter was expected to produce consumer goods at a low cost and create employment with minimum social dislocation. "Once a machine-building industry was established the hand-loom would be replaced by the power-loom, and low cost cottage industry would be able to compete with factory manufactured goods."

The Gandhians loved the protection for cottage industry. Socialists welcomed the emphasis on a heavy industry and the expansion of the public sector. However, the business community was dismayed by the drift of the country towards socialism and Soviet-style planning. Neither did civil servants warm up to the "socialist tendencies" in the document, although secretly they must have been pleased, as they would be in charge. The finance minister, C. D. Deshmukh, was distressed that there was insufficient discussion of the plan frame's ideology in the cabinet. But the thinking elite was electrified by the document. Intellectuals abroad were euphoric. J. B. S. Haldane, the distinguished albeit committed scientist, expressed the sense of excitement among intellectuals overseas:

> *Even if one is pessimistic, and allows a 15 per cent chance of failure through interference by the United States (via Pakistan or otherwise), a 10 per cent chance of interference by the Soviet Union and China, a 20 per cent chance of interference by civil service traditionalism and political obstruction, and a 5 per cent chance of interference by Hindu traditionalism, that leaves a 50 per cent chance for a success which will alter the whole history of the world for the better.*

Taya Zinkin, a British journalist, pointed out that there was a socialist revolution by consent under way in India that would make "communism look both old-fashioned and barbarian by comparison. It was a revolution without class wars, heretics or victims, and its weapons were a series of tedious legal acts." Nehru was anxious to explain his policies to the masses and give them a sense of participation in economic and social development. He made a long string of speeches in the winter of 1954 to educate the people about his vision of a socialist society. This culminated in his landmark resolution at the Avadi session of the Congress Party in January 1955, which committed the nation to "the establishment of a socialist pattern of society where the principal means of production are under social ownership or control." It gave legitimacy to Nehru's intellectual joint venture between Keynesian macroeconomics, Stalinist public investment policy, and Gandhian rural development. Thus, it was in the spirit of high adventure and profound confidence following Independence that India embarked upon the program of planned development to lift the economy out of centuries of backwardness.

Mahalanobis believed that steel was central to the revolution. "The production of steel probably has the highest correlation with national income in different countries," he argued, and "we shall … use the steel to produce more machinery to produce more steel and tools; and also to produce machinery to make more consumer goods." The logic was clear. But to get started India needed a heavy dose of investment and technology from abroad. India had only two relatively small steel plants at the time, making barely a million metric tons a year. Given his socialist bias, Mahalanobis ruled out private foreign investment; nor did Indian entrepreneurs have the massive funds, he felt, to fulfill the bold vision. The government thus reached out to foreign governments who could build the plants based on foreign aid. The West Germans agreed to give a loan to build a plant with the famous Krupp technology in Rourkela in Orissa. The British offered a loan to their equipment makers to set up a plant at Durgapur in West Bengal. The Soviet Union came forth with a plant at Bhilai in Madhya Pradesh. Together these three plants added only 2.3 million metric tons, and India still imported a million metric tons a year at a cost of $200 million in the early sixties. The Indian government now approached the United States for the fourth plant at Bokaro. John F. Kennedy, the President, was a friend of India and he readily agreed to champion the project. It was to be the biggest plant, and it had the biggest price tag—roughly a billion dollars, to make four million metric tons of steel. Despite a friendly President and supportive ambassador (Galbraith), the plant was spiked in the U.S. Congress. That day I was among the vast number of Indians who were deeply disappointed with America. India was again pushed into the Soviet embrace to finance the plant, and Russia had to finally set it up.

In the 1950s, there was an alternative vision to that of Mahalanobis. It belonged to the Bombay economists C. N. Vakil and P. R. Brahmanand. It was neither as glamorous nor as technically rigorous as Mahalanobis's, but it was more suited to the underdeveloped Indian economy. Its starting point was that India lacked capital but had plenty of people. There was huge disguised unemployment in the countryside. The thing to do was to put these people into productive work at the lowest capital cost. The Bombay economists suggested that we employ the surplus labor to produce "wage goods," or simple consumer products—clothes, toys, shoes, snacks, radios, and bicycles. These low-capital, low-risk businesses would attract loads of entrepreneurs, for they would yield quick output and rapid returns on investment. Labor would produce the goods it would eventually consume with the wages it earned in producing the goods. They were called "wage goods" because the wage earner would create the demand for the goods that he produced. The idea was similar, in a sense, to that of Henry Ford, who paid his workers generously so that they could afford to buy his cheap, mass-produced cars. This Bombay strategy was exactly opposite to Mahalanobis's vision of huge state-controlled, capital-intensive steel plants, employing few people and delivering low returns over long gestation periods. The "wage goods" strategy would have pushed investments into agriculture, rural infrastructure, agro-industry, and simple consumer manufactures for both the home and export markets. It would have meant postponing the ambitious projects in capital and heavy industry. We would have imported the capital goods in the near term, and the foreign exchange for their import would have been earned from the export of simple consumer manufactures—the sort of products that Japan and the Asian tigers started with. The result would have been high economic growth, high employment, rising exports, and prosperity.

Bombay is known for Alphonso mangoes, its deep natural harbor which is ideal for shipping, and its famous stock exchange. But not for its economists. Economists largely grow in Calcutta, and when they are ripe they are sent off to Delhi. It is no wonder that Bombay's vision was ignored. It was too practical and sensible—much like Bombay's citizens. It is a great tragedy of history that no one paid attention to Vakil and Brahamand's strategy, certainly no one in the government. The Indian intelligentsia was mesmerized by the apparent success of the USSR. It wanted big steel plants and not small factories which made clothes, shoes, toys, and bicycles—the sort of things that the masses could use. In those days, anyone in India who advocated greater investment in agriculture was branded an American agent. When American foreign aid experts had recommended that we invest in agriculture instead of steel, Indians had seen it as a sinister plot to keep India backward.

Mahalanobis and Nehru made two other strategic errors, which we discovered only later. They assumed that there were no opportunities for rapid export expansion. Some years later we would find out that tiny Hong Kong earned more from its exports than the whole of India. They also despised competition. Painfully, we would learn that there could be no improvement in productivity without it. Nehru thought competition wasteful; in a letter to his daughter, Indira, he said that individual planning without coordination results in squandered resources. Private enterprises, he wrote, attempted "to overreach or get the better of other individual concerns. Naturally, this results in the very opposite of planning; it means excess and want, side by side." From this failure sprang many weaknesses—apart from low productivity, lack of innovation, poor-quality products, low investment in human resources.

Nehru failed to appreciate that robust competition is the best school in which industry learns to succeed. It creates demanding customers who continually push companies to innovate and improve product quality. Competition also forces companies to invest in employees and upgrade their skills. Eventually a nation's prosperity grows out of its industries' ability to gain competitive advantage in the global market, based on technological superiority and the skills of its workforce. India's failure on the world economic stage is in great part due to the lack of competition in its domestic marketplace. As a result of this and other errors, India would begin to fall behind its more dynamic rivals and slowly lose its reputation.

It was India's interventionist licensing, however, that turned out to be an economic cancer. Mahalanobis's thinking on the Second Plan was logically extended to the damaging Industrial Policy Resolution in 1956, which reserved seventeen industries exclusively for the public sector. The reserved industries included iron and steel, mining, machine tool manufacture, and heavy electrical plants. Although it left the door open for private entry into the reserved list, in practice the door was closed for thirty-five years, and the reservation became sacrosanct until the reforms of 1991. The logic behind "reservations" was that these were industries of "basic strategic importance" and "required investment on a scale which only the state could provide." It was flawed logic. In the 1950s, perhaps an industrialist did not have the resources, but in the 1960s many did (when G. D. Birla, for instance, was refused a license to set up a steel plant).

It never did make sense to close an industry to the private sector—it was tantamount to discouraging entrepreneurship and competition. It was prejudice, pure and simple, against the market. The successful countries of the Far East, in contrast, practiced the opposite policy beginning in the 1960s. In Korea, for example, the government offered cheap credit to private business when it did not have the resources necessary to set up strategic and basic industries. The Japanese miracle was based on the brutal competition in its marketplace. The Tatas made 119 proposals between 1960 and 1989 to start new businesses or expand old ones, and all of them ended in the wastebaskets of the bureaucrats. Aditya Birla, the young and dynamic inheritor of the Birla empire, who had trained at MIT, was so disillusioned with Indian policy that he decided to expand Birla enterprises outside India, and eventually set up dynamic companies in Thailand, Malaysia, Indonesia, and the Philippines, away from the hostile atmosphere of his home.

Even more damaging than placing the public sector at "the commanding heights of the economy" were the creeping controls on the private sector. The most bizarre and damaging was the licensing system. It began with the Industries (Development and Regulation) Act of 1951, which required an entrepreneur to get a license to set up a new unit, to expand it, or change the product mix. The purpose of licensing was (a) to create the planned pattern of investment, (b) to counteract monopoly and the concentration of wealth, (c) to maintain regional balance in locating industries, (d) to protect the interests of small-scale producers and encourage the entry of new entrepreneurs, and (e) to encourage optimum scale of plants and advanced technology. All these were good intentions, but the way that the bureaucracy went about administrating the licensing system created a nightmare for the entrepreneur.

An untrained army of underpaid, third-rate engineers at the Directorate General of Technical Development, operating on the basis of inadequate and ill-organized information and without clearcut criteria, vetted thousands of applications on an ad hoc basis. The low-level functionaries took months in the futile microreview of an application and finally sent it for approval to the administrative ministry. The ministry again lost months reviewing the same data before it sent the application to an interministerial licensing committee of senior bureaucrats, who were equally ignorant of entrepreneurial realities, and who also operated upon ad hoc criteria in the absence of well-ordered priorities. Once it cleared the licensing committee, it was sent to the minister for final approval. After the minister's approval, the investor had to seek approval for the import of machinery from the capital goods licensing committee. If a foreign collaboration was involved, an interministerial foreign agreements committee also had to give its consent. If finance was needed from a state financial institution, the same scrutiny had to be repeated afresh. The result was enormous delays, sometimes lasting years, with staggering opportunities for corruption. By the time the backbreaking process of moving files from office to office was completed, many an entrepreneur had lost heart.

Large business houses set up parallel bureaucracies in Delhi to follow up on their files, organize bribes, and win licenses. Since the system was based on first come, first served, "the bigger houses realized that they could corner a considerable amount of targeted capacity by putting in multiple and early applications for the *same* product. Thus, they could "foreclose capacity," without any intention of implementing the successful licence application." If the entrepreneur did finally get started and made a success of his enterprise, he was again in trouble. It was an offense punishable under the law to manufacture beyond the capacity granted by the license. We became the only country in the noncommunist world where the production of goods sorely needed by the people was punishable by law.

Tragically the system ended in thwarting competition, entrepreneurship, and growth, without achieving any of its social objectives. It fostered monopolies and encouraged uneconomic-scale plants employing second-rate technology in remote, uncompetitive locations. The endless delay in clearing applications discouraged the entry of efficient and honest entrants and rewarded wily, inefficient producers who could manipulate the system. In many cases the basic entrepreneurial decisions, such as the choice of technology and the size and location of plants, which impacted on costs and prices, were taken away from risk-taking businessmen and were made by bureaucrats who did not have a clue about the basics of running a business. Thus, licensing was an unmitigated disaster. It raised costs, brought delays, arbitrariness, and corruption, and achieved nothing. We killed at birth any hope for an industrial revolution.

The responsibility for instituting the nightmarish controls clearly lies with the bureaucracy. I. G. Patel, the distinguished economist who was closely associated with the government in senior positions, confessed that Nehru's "acceptance of controls came through the influence of civil servants (and economists) who had gone to the same kind of schools and who spoke the same kind of English and with whom, as a result, he came to have a special kind of rapport." There was probably no more distinguished group than the top civil servants Nehru had gathered in economic decision making at the time. There were Rama Rau and H. V. R. Iyengar at the Reserve Bank, H. M. Patel and M. V. Rangachari at the finance ministry, L. K. Jha and K. B. Lall at commerce and industry, Tarlok Singh at the Planning Commission. Like Nehru, they were honest, well-intentioned people.

B. K. Nehru, the Prime Minister's cousin (who also played an important role in economic decision making at the time), admitted in his autobiography that "with the benefit of hindsight it seems totally absurd that a country wanting to develop its industry should prescribe for its establishment conditions which were guaranteed to strangle it." He confessed that there was hardly any experience in the government of how industry was actually run. Prime Minister Nehru merely desired that "the commanding heights of the economy" should be in the public sector. Beyond that, the Prime Minister left it to the civil servants to create a framework to regulate private enterprise. The underlying assumption remained that business was dishonest, and that "to ensure honesty and eliminate profiteering, private business should operate under strict government control."

The one person who could have stopped the growing regulatory monster was the powerful T. T. Krishnamachari (TTK), who had the implicit trust of the Prime Minister. He was a cabinet minister in charge of commerce and industry between 1952 and 1956, of iron and steel in 1955–1956, and then served as finance minister in 1956–58 and 1963–65. He was a businessman who understood how the economy worked. He was afraid neither of Mahalanobis nor of ideology. He was one of the ablest members of the cabinet, and he was impatient to get on with the job. He didn't bother if investment was public or private. He encouraged both. He constantly met private industrialists and goaded them to invest. He helped the Tatas to expand their steel plant and set up their truck-making project. He set up major financial institutions for providing cheap credit and financing to the private sector. He pushed for the speedy erection of the three public-sector steel plants. He chided the Gandhians for wanting to go back to the village. He was critical of the socialists, saying, "greater emphasis on State enterprises [will] merrily lead to a dead end."

TTK worried about the organizational setup of the public-sector enterprises: "The one enterprise which I took over (in the public sector), the Hindustan Steel Ltd, would, I am afraid, if publicly scrutinised, condemn forever the creation of a public sector." Despite the brave words, TTK turned out in the end to be merely a wily politician, and his convictions ran only skin-deep. His power depended on the trust that Nehru reposed in him. Nehru's confidence in him depended on TTK's enthusiastic support of the Prime Minister's socialist policies. Because it was politically correct, TTK cogently defended Mahalanobis's Second Plan in Parliament. He nationalized insurance. He was the author of the Industrial Policy Resolution of 1956, which put industry into a complete straitjacket. He also presented the infamous budget of 1957–58, which added Kaldor's wealth tax, expenditure tax, gift tax, and capital tax, *on top of* an 87.5 income tax rate, and thereby he killed the stock market.

How a bright and able businessman destroyed the future of private industry in India can only be explained by TTK's thirst for power. Instead of resisting controls, he cheerfully added to them, because he thought it would consolidate his popularity with Nehru. The business class, who should have been the first to protest, was too timid. In the years after Independence, people had been hard hit by inflation because of postwar dislocations and the partition of the country. As the prices of food rose, it was natural for the middle class to blame the usurious merchants in the neighborhood, calling them "profiteers and black marketers." Hence, businessmen were defensive.

Neither did the international experts complain. During the 1950s and 1960s, a galaxy of world-renowned economists came to India. Among them were Rosenstein-Rodan, Arnold Harberger, Jan Tinbergen, Ragnar Frisch, Ian Little, Richard Eckaus, Max Millikan, Nicholas Kaldor, Richard Goodwin, Oskar Lange, Brian Redway, Alan Manne, and James Mirlees. Most of them were full of praise for Nehru's bold experiment to combine the social justice of socialism with democracy's freedom.

Criticism against controls finally came from the Swatantra Party in the early 1960s. Led by the respected figure of C. R. Rajagopalachari, the party championed the cause of free enterprise in India. He gave the name "License Raj" to Nehru's socialism. But the party did not survive because Indian businessmen found it easier to get what they individually wanted (licenses, permits) from staying on the right side of the Congress Party. Neither have Indian businessmen been ideologically committed to free competition. They are forever ready to seek protection from foreign imports and foreign capital. Moreover, they genuinely believed that Britain's laissez-faire policies had aborted India's industrialization, and they were willing to put up with an interventionist state. The Swatantra Party was ineffectual because there was insufficient intellectual support for free and competitive markets in India. In a society steeped in feudal traditions and generations of economic stagnation, it is difficult to think of positive-sum results. Everyone is programmed to think that "my success can only come at the expense of your failure," and "I can only get more land by taking it from you." The government is "mother and father," protecting me from my rapacious brother. In such a society the madness of governmental controls—License Raj—was a natural development.

With all that was going for India in the 1950s, what went wrong? Where did science let us down? How did the development experts fail? Despite the gloss of science, despite the acclaim of the international economists, the fact is that our fundamental ideology was flawed. We adopted Nehru's "mixed economy" because we believed that it was superior to both capitalism and communism. By "mixed economy" Nehru meant a mixture of socialism and capitalism in which the state would take a leading role in industrialization. We grew up in the smug belief that although the mixed economy was inefficient, it was better than capitalism because it preserved democratic freedoms. This turned out to be wrong in practice.

The mixed economy ended in combining the worst features of socialism and capitalism—the "controls" of socialism with the "monopolies and lobbies" of capitalism—and we got the worst of both worlds. The "controls" suppressed growth by subduing the innovative energies and animal spirits of capitalism. Nor did the mixed economy deliver social justice and welfare, which at least the socialist countries did. Instead of delivering quality education and public health to the masses, it delivered subsidies, which usually went to the better-off.

The problem of the mixed economy was of performance, not of faith. It was a noble vision of Nehru's which led to oppression by the state. Indians later learned from painful experience that the state does not necessarily work on behalf of the people. It works on behalf of itself—the politicians, bureaucrats, and the interests which directly support them. State employees went on to become a powerful vested interest that was responsible to no one, and they often believed that they did not have to work.

There were at least five flaws with our socialism. We adopted an inward-looking, import-substituting path rather than an outward-looking, export-promoting route, and thus we did not participate in world trade and the prosperity that trade engendered in the postwar era. We set up a massive, inefficient, and monopolistic public sector to which we denied autonomy of working. We overregulated private enterprise with the worst (case-by-case) controls in the world, and this diminished competition in the home market. We discouraged foreign capital and denied ourselves the benefits of technology and world-class competition. We pampered organized labor and that led to extremely low productivity.

Ultimately, we paid a heavy price for our skepticism of the market's ability to allocate resources wisely. We did not trust profit to reflect economic efficiency. Neither did we think that Indian entrepreneurs had the will or the resources to make the investments needed to transform the country rapidly. We felt that only the state could assume this role. We were under the spell of the Soviet economic miracle and this led to a bias towards heavy industry and against agriculture and light consumer industry. We assumed that India could not export and would always be short of foreign exchange. Therefore, we had to depend on substituting imported products, especially capital goods. These assumptions turned out to be wrong.

It was a failure both of ideology and management—the latter more than the former. Many believe that if Sardar Patel had become our first Prime Minister rather than Nehru, our future may have been different. Patel was not only less ideological, he was a superb manager.

Let us not forget that socialism was attractive to any sensitive person in the idealistic 1950s. The country had become free after two hundred years, and there was a sense of hope. The class with money and influence was tiny and came entirely from the upper castes. It had monopolized power and privilege and the few scarce facilities for education, health, and infrastructure. It naturally wanted to preserve its privileges. The rest of the population had been left out in the cold. It was natural for the ordinary Indian to expect that independent India should intervene on behalf of the masses. We must not forget that Nehru too was the product of a certain society and age. The spirit of the times offered socialism as the answer. The leaders, for their part, who had fought for decades for freedom and who were now in power, were also in a hurry. They could not wait for the benefits to "trickle down" from a market-oriented strategy. However, the socialism that emerged was "a rather weak and hollow reed in which one could blow almost any kind of music."