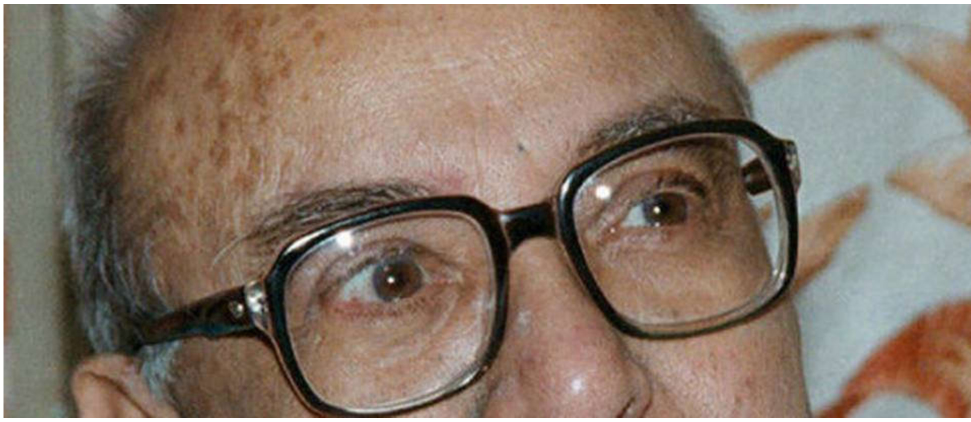
Throwback to an earlier debate

SUMIT K. MAJUMDAR

T+ T-


P.R. Brahmananda


P. C. Mahalanobis

Bhagwati reflects the views of the erstwhile Bombay school of economists, and Sen the Calcutta school.

The confrontation between Bhagwatinomics — favoured by those partial to Prof. Jagdish Bhagwati — and Senology, espoused by supporters of Prof. Amartya Sen, has a historical parallel.

In the 1950s and 1960s, there was a sharp clash between the Bombay and Calcutta schools of thought on appropriate frameworks for India's development.

The results had far-reaching consequences. It is important to analyse the differences in assumptions between the Bombay and Calcutta schools, and between Bhagwatinomics and Senology, to understand their consequences for contemporary India.

Bombay School

I have described the Bombay and Calcutta debate in my book " *India's Late, Late Industrial Revolution: Democratizing Entrepreneurship*." The Bombay school was driven by business interests.

The Calcutta school was driven by academic, technical and bureaucratic interests. Both schools contained seasoned professionals.

The Bombay team protagonists were professors C.N. Vakil and P.R. Brahmananda, of Bombay University.

The Bombay school was started by Prof. K.T. Shah. Shah's successor was Prof. C.N. Vakil, who built up the Bombay school. Others associated were Messrs P.A. Wadia, A.D. Shroff and K.T. Merchant.

The Bombay view was of a decentralised and entrepreneurial economy, in which the dynamism and cheerfulness of the small businessman would generate economic surplus and lead to growth. India lacked financial capital, but had plenty of cheap human capital.

The way to increase investment without inflation was to ensure sufficient supply of mass consumer goods.

That meant prioritising investment in consumer goods industries.

There was substantial rural unemployment. This could be ameliorated by deploying unemployed persons in productive work in small businesses using relatively littl
surplus labour could produce wage goods.

These were consumer products meant for immediate mass consumption. These low capital businesses would yield quick output, and attract entrepreneurial entry.

The now-employed surplus labour would consume goods with the wages earned. The Bombay strategy would lead to investments in rural infrastructure, agriculture-based industries and the manufacture of simple consumer items.

A standard-bearer for the Bombay school was M.R. Pai of Bombay's Forum of Free Enterprise, an NGO founded by A.D. Shroff. Associations existed with the Swatantra Party, whose Bombay leader was Narayan Dandekar, a retired ICS officer, MP and chartered accountant.

The Bombay school fought a long drawn but losing battle in support of decentralised enterprise and the role of the indigenous private sector businessman in India's economy.

Calcutta School

The Calcutta school of thought was propounded by Prof. P. C. Mahalanobis of the Indian Statistical Institute (ISI), a physicist turned statistician turned planner.

He played an important role in India's planning. His views prevailed over all others. During Mahalanobis's time in the Planning Commission, other intellectual influences were not economists but two administrators, Tarlok Singh, an ICS officer, and Edward Penderel Moon.

Moon, a British ICS officer, had quit the ICS in 1944 and left India. He returned to India before Independence. After its formation in 1950, Moon was an adviser in the Planning Commission. In 1961, he left India. Moon was impressed by, and proposed the Soviet approach to industrialisation, which Pandit Nehru fell for!

Tarlok Singh was Private Secretary to Prime Minister Jawaharlal Nehru. He moved to the Planning Commission at inception as the Prime Minister was ex-officio Chairman of the Planning Commission. By 1964 Tarlok Singh was a Member of the Planning Commission. The Mahalanobis-Moon-Singh (MMS) triumvirate ran the Planning Commission, and India's economy.

The Calcutta school was based on a centralised government-run economic model. It involved setting up very large plants, in state-owned enterprises, in sectors such as steel and heavy machinery. These capital-intensive facilities, employing few people, would deliver low returns over long gestation periods.

But these units were to be put up because they would be used for building machines that built other machines.

Without other machines, downstream industries could not be set up. Certain big industries were treated as basic because they made possible the emergence of other enterprises. By this approach, government could influence the speed and direction of economic growth. The core of the Calcutta school strategy was capital-intensive and heavy industrialisation, led by the public sector, to build key industries and control the commanding heights of a modern Indian industrial economy. The private sector would play second fiddle. The historical statistics of India's economic growth in the 1960s, 1970s and 1980s is a stark reminder of the outcome of Calcutta school thinking.

Dirigisme won't work

Entrepreneurship is economic freedom. Bhagwatinomists support a Bombay school entrepreneur-led economic model that permits the link between economic self-determination and moral responsibility to be established. Just as the Constitution had created a strong democratic political process, the need for India is democratisation of entrepreneurship. Decentralisation of the economic process is at the core of Bhagwatinomics.

The laying at a businessman's door of the cause-effect relationship in business transactions engenders rationality. It minimises dissonance and maximises benefits. The entrepreneurship engine drives economic growth and curtails government spending. At least, Bhagwatinomics is inflation neutral and employment oriented. Conversely, the Calcutta school was a technocratic view of India's economy based on an abstract theoretical model of what the world might be. In this approach, individual agency is ignored.

An impersonal, top-down and centralised government-run system delivers the goods. Government processes are meant to generate growth. Has that, however, happened in India? Sen has commented on freedom and individual empowerment. His approach is to engender the development of human capabilities. In fact, having developed key capabilities permitting the undertaking of numerous activities, individuals could engage in numerous social and economic activities. Yet it seems that contemporary Senology denies human agency and entrepreneurship a role.

This approach harks back to the erstwhile Calcutta school, in which top-down hierarchy, centralisation, and a subordination of the individual to the system was the heart of economic theology. Paradoxically, hence, Sen strongly supports *dirigisme*, with a strong hierarchical delivery mechanism, fully managed by government agencies, in a centralised way.

So we have active State participation in providing healthcare, education, to eradicate bad health and illiteracy, by a State that ensures small children are killed eating school meals. Senology is ignorant about inflation and apathetic to employment.

You can choose! Would you like to believe in Bhagwatinomics or Senology?

(The author is Professor, University of Texas, Dallas)

Published on August 11, 2013

Why Delhi's Kashmir act hasn't got the world worked up
The Hindu Businessline

With little options to counter India's Kashmir move, Pakistan in a spot
The Hindu Businessline

Moody's keeps YES Bank ratings under review for downgrade
The Hindu Businessline

Comments (0)

Comments are now closed.

Search comments...

Be the first to comment

TALK OF THE TOWN

PMO hangs up on BSNL-MTNL merger plan for now

9 Comments

Capital gains: For FPIs, new SEBI norm is a tax-free 'gift'

8 Comments

Stimulus to industry creates moral hazard, says CEA

1 Comment

Rains push up prices of onion,tomato in North

1 Comment

Stimulus package: Capital infusion brings smiles to bankers

1 Comment

Essar Power in talks with lenders to deleverage debt

1 Comment

Show more articles

This article is closed for comments.
Please **Email the Editor**

Specials Portfolio BL Ink **Catalyst** **India File**

Rural report card

A taste of forest food and adivasi tradition

Visit Bhopoli village in Palghar district of Maharashtra to de-stress from urban pressures and to go back to ...

Saving the fragile ecosystem

The menace of plastic is playing out everywhere, be it the Capital city of Delhi, the floodplains of the ...

The changing face of adolescents in Gujarat

An empowerment programme, CHETNA, is transforming youngsters