



Winning the intellectual battle for economic liberalization

That socialist era hasn't quite passed and may be upon us once again. Citizens should be wary

By: Rajeev Mantri and Harsh Gupta – March 21, 2013

London-based data journalist David McCandless recently published an infographic capturing the leading causes of death in the 20th century. The artwork said that 142 million had been killed because of ideology, of which 94 million deaths were caused by communism, with massive killings taking place in its name in China, the Soviet Union, Eastern Europe and North Korea. The death count because of communism exceeds deaths caused by fascism, terrorism, and even both the world wars. India usually doesn't figure in the public mind as a nation that has been "communist", though it was frequently described as the seemingly more benign "socialist".

Cato Institute research fellow Swaminathan Aiyar published a paper in October 2009 titled *Socialism Kills: The Human Cost of Delayed Economic Reform in India*. Aiyar wrote that "14.5 million more children would have survived, 261 million would have become literate and 109 million more people would have risen above the poverty line" had India initiated economic reforms in 1971.

It wasn't always this way, but the Indian Constitution has a commitment to socialism and doesn't really recognize property rights. When India became independent, the right to private property was a fundamental right. The first amendment to the Constitution championed by prime minister Jawaharlal Nehru started the process of downgrading this right from a fundamental one to just another legal one.

The word "socialism" was inserted into the preamble of the Constitution by prime minister Indira Gandhi via the 42nd constitutional amendment in 1976 during her dictatorship that is known by its rather mild technical term "emergency".

This historical context is not merely of academic interest, but is very relevant to the debate on economic development and liberalization in India, which is far from settled despite what many intellectuals seem to believe. The consensus is that after the reforms of 1991, India became a "free-market capitalist" economy, as *Outlook* editorial chairman Vinod Mehta put it in a television debate.

This is untrue, and the fact that this myth persists only tells us that the intellectual battle in favour of economic liberalization has been far from won.

We live in a nation that only nominally recognizes a citizen's right to property and a

nation where every political party is legally required to pledge allegiance to socialism. According to the World Bank's ranking on ease of doing business, India ranks at 132 out of 185 countries. The government considers it perfectly acceptable to own hotels, airlines, railways, scooter makers, textile producers, power generation firms, chemicals manufacturers, telecommunications providers, electronics manufacturers, mining companies and myriad other businesses.

Excepting a period of rare courage and conviction in getting the government out of business shown by the Atal Bihari Vajpayee government, privatization is hardly a priority and is even criticized by the "intellectuals". Disinvestment has been mangled to mean the monetization of minority equity stakes in public sector companies to meet fiscal targets—it would be appropriate to rename the department of disinvestment as the department of public asset monetization. Public sector banks are routinely bailed out—the euphemism is "recapitalized"—with taxpayer funds and there isn't a murmur of protest.

Bank bailouts are, in fact, the norm in India ever since Indira Gandhi nationalized the banks in 1969, a step which was hailed as a visionary masterstroke that saved India from the 2008 global financial crisis by the then finance minister Pranab Mukherjee, and more recently by Congress vice-president Rahul Gandhi.

Public opinion on this issue is at best amorphous. Leading public intellectuals and media commentators feed people the lie that it is now all about "inclusive growth" that would be achieved by redistributing the limitless gains of India's entrepreneurial capitalism. Meanwhile, the *aam aadmi* is confused about why India has so many scams and such poor governance, both of which happen largely because the government chooses to enter domains where it has no direct role to play.

India has over 70 ministers and 40 ministries. Do we really need them all? Why can't the unnecessary ones be closed down? Even communist China has started cutting down government departments—just to take one example, it recently shut down its railways ministry. Moreover, as Gujarat chief minister Narendra Modi said recently, there is no reason why the government should be the only one operating trains even if it continues to own the tracks.

Let us not dwell too much upon the mining, power, steel, ports or chemicals sectors that have their own ministries and where government interference is well-known.

Because India's Constitution doesn't recognize the right to property as a fundamental right, permits for drilling oil and natural gas issued to private companies can—via the executive or the judiciary—be de facto revoked at any moment in a fit of populism by changing or fixing prices, once the risky effort of research and exploration has been completed by a private group. Is it surprising, then, that Indian entrepreneurs are looking to buy natural resource assets abroad in countries such as Australia, even though we have a cornucopia of some of these resources right in this country?

Let us not even look at the entitlements—it started with guaranteed employment, then education and now we have proposals for food and housing on the anvil—being doled out by the current government at the behest of the National Advisory Council headed by Congress president Sonia Gandhi, who has been described by *The Wall Street Journal* columnist Sadanand Dhume as "India's socialist godmother".

The Mahatma Gandhi National Rural Employment Guarantee Scheme, which bans the use of machinery, has forced citizens to toil in the sun for construction work that could have been done faster and cheaper by machines. The Right to Education law is destroying private schools—and, hence, broader access and choice for students and parents. The food and housing guarantees are also highly likely to play out in a corrupt, inefficient fashion. Cash transfer is a better idea, but the government seems to be using it to supplement rather than do away with the above schemes.

A good example to show that India is far from being economically-free comes from the digital world, which until now was untouched by the muck that flies around in the other sectors. It was reported recently that Indian Railways subsidiary Indian Railway Catering and Tourism Corp. is entering the e-commerce business in India, a sector that has already been crippled by the rule prohibiting foreign direct investment (FDI) in it.

The UPA government allowed FDI in the retail sector with debilitating conditions attached, but bizarrely disallowed online retailers from taking foreign investment, destroying investor confidence in a nascent industry that had already received hundreds of millions of dollars of foreign funding from private equity investors. IRCTC enjoys monopoly rights to issue railway tickets. It is simply entering online retail to cash in on vast database of users who signed up to purchase rail tickets.

It may not succeed, but IRCTC enjoys huge advantages over other start-ups in the area. The government has a clear conflict of interest on this issue—it is starving existing e-commerce startups for foreign capital while building up its own venture in the area, funded by taxpayers and fed to a captive consumer base that had signed up for something else.

Taking a long view, the current political leadership and intellectual consensus in India still agrees with the Nehruvian construct, denying citizens the fundamental right to property and initiating “rights” to property doled out by government. Indeed, India will only have broken from this construct when the right to property is restored as a constitutional fundamental right.

Aiyar writes in his paper that “the delay in economic reform represents an enormous social tragedy. It drives home the point that India’s socialist era, which claimed it would deliver growth with social justice, delivered neither.”

That socialist era hasn’t quite passed and may be upon us once again—a godmother who professes to give people everything they need can also take away everything they have. Citizens should be wary.