

## *Cheer Up, Liberty Lovers, Schumpeter Was Wrong*

*Shikha Dalmia* | February 23, 2012

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Sometimes, when you are despairing that Joseph Schumpeter was right that capitalism is doomed because its very success inspires the Paul Krugmans and Robert Reichs of the world to spew venom against it, the universe randomly whacks you over the head with something to remind you that not all is lost. In my case, it was a 1960 quote from India's first Prime Minister Jawaharlal Nehru, an ardent socialist waxing ardently about the wonders of the socialist economy that he had inflicted upon his country.

Enthused Nehru:

We have accepted the socialist and cooperative approach . . . the planned and scientific approach to economic development in preference to the individual enterprise of the old laissez faire school. . . Planning and development have become a sort of mathematical problem which may be worked out scientifically. . . It is extraordinary how both Soviet and American experts agree on this. If a Russian planner comes here, studies our projects and advises us, it is really extraordinary how his conclusions are in agreement with those of, say, an American expert. . . The moment the scientist or technologist comes to the scene, be he Russian or American, the conclusions are the same for the simple reason that planning and development today are almost a matter of mathematics.

There are at least two noteworthy things about this quote:

One: No self-respecting economist of any stripe would ever string together the words "socialist" and "scientific" in one paragraph anymore. But Nehru's economic views were formed in the 1930s while studying at Britain's finest institutions where the fashionable Fabian view was that Frederic Hayek had lost the socialist calculation debate to University of Michigan's [Oskar Lange](#), Stalin's favorite economist. Hayek, following Ludwig von Mises, had famously [argued](#) that there was nothing rational or scientific about socialism because it lacked the necessary price signals that would allow economic actors to coordinate their activities and generate the best possible allocation of resources. Lange countered with

a model of market socialism under which central planners would replicate a kind of price system through trial and error. They would arbitrarily pick a price for products manufactured in government factories and raise it or reduce it depending on whether it resulted in shortages or gluts. After this economic experiment had been run a few times, a handful of brilliant mathematicians capable of solving complex simultaneous equations would be able to plan the economy to deliver peace, prosperity and the good life to one and all much more effectively than silly entrepreneurs running around in their tiny factories making the same product 30 different ways in a market economy. Just how charmingly archaic, antiquated, and antediluvian that view sounds now after have reigned supreme for four decades is a victory of no small proportions.

Two: The Cold War was supposed to be a fight between two competing ideologies. The West was allegedly defending liberty and laissez faire and the Soviet Union equality and central planning. But Nehru was not kidding when he noted that the West – and America – really dug the whole Soviet project. In fact, even though America (legitimately) berated India as a Soviet stooge during the Cold War, leading economic lights in the U.S. were cheering India's embrace of Soviet-style planning and actually wanted to *pay* India to use the Soviet model.

All of this is clearly laid out in Shyam Kamath's 1992 Cato Institute [paper](#), *Foreign Aid and India: Financing the Leviathan State* (also the source of the above Nehru quote). Kamath notes that in the 1960s India began to be heralded in the West as the epitome of rational, planned economic development. John P. Lewis, the dean of American foreign aid experts who had held prominent posts with the Council of Economic Advisers, the UN Reconstruction Agency, and the U.S. Agency for International Development's mission to India, argued in his influential 1962 book, *Quiet Crisis in India*: "There is much less need now for [a] defense of the very concept of comprehensive economic planning in countries like India. . . . Today [such] planning is officially viewed as an essential concomitant of any national development that merits American assistance, and the United States government is urging such planning upon Latin American, African, and Asian governments that do not yet practice it."

Lewis argued that India's planned development was the most feasible and desirable path for a country at an early juncture in the development process and that the decentralized market system was inappropriate, destined to fail, and had only led to the development of Great Britain and the United States because of "special circumstances." His book made an impassioned plea for vastly stepped up levels of American aid to support the "rationally planned economic development" of India's Second Five-Year Plan.

The whole paper is well worth a read, not just because it does a nice job of documenting how India sacrificed billion of dollars of Western aid at the altar of Soviet socialism but also because it offers a

fascinating glimpse into the mind of Western liberati during the Cold War and how far its modern version has come.