

“Before you can do the social spending, you have to find the money for it” – Jagdish Bhagwati

blogs.lse.ac.uk/southasia/2015/01/26/before-you-can-do-the-social-spending-you-have-to-find-the-money-for-it-jagdish-bhagwati/

2015-1-26

During a recent visit to LSE, **Jagdish Bhagwati**, Professor of Economics at Columbia University, spoke to Sonali Campion about his views on the need for liberalisation to support social spending in India. He also emphasised the role of democracy in allowing citizens to translate their growing aspirations into politically effective demands.



In your recent book *Why Growth Matters*, you and Professor Panagariya champion further liberalisation in India. A number of academics, including several here at LSE, have highlighted the negative effects of liberalisation, such as the rise of inequality, contract labour and debt bondage. What’s your response to these criticisms of liberalisation?

When I was writing my book *In Defence of Globalisation* I quoted that song “What has love got to do with it?”, and I said you’ve got to ask the question “what has globalisation got to do with anything?” There are plenty of awful things going on – enduring child labour, all sorts of things – which every normal human being would want to object to. So the question is: has liberalisation really led to all these things?

It’s like the discussion about whether liberalisation leads to more corruption. I would say, actually it has led to less. The reason being, if you look at the Indian experience, which is the one I know most about, if you take the two big scams, you know the telecoms and coal, which is more traditional. These are two areas where you didn’t have liberalisation. People like [Dani Rodrik](#) distinguish between policies and institutions, but the two are intertwined.

When I was your age India was supposed to be the number one country for its administrative service, for its politics, the judiciary was considered independent, we had a decent press and so on. So we really were looked upon as having star potential for development. Now you look at it, and many people think it’s the pits! When did that happen?

I think it happened because of the process of allocating licences and so on, which I myself was party to. Early on I was to the left of centre, and actually campaigning that socialism was not being properly pursued. We then found intervention was getting bigger and bigger like a Frankenstein. The politicians discovered it, the bureaucrats decided it gave them some power so it became endemic and grew and grew.

When all these people started objecting to it, going to the streets and so on, it did have an impact and I think this is where I would say what our people wanted (putting on my Indian hat) was more liberalisation, not less, meaning extended to these other sectors like telecoms and coal. They’d seen that this was the way to curb political and bureaucratic excesses, and also therefore corruption.

You talk about the notion of inclusive growth, but in the headlines here are frequently highlighting how unequal growth has been in the West, with the 1% vs the 99% and so on. What is inclusive growth?

It’s the same as in the West, in that you really want to bring the poor into gainful employment. When we say inclusive growth it’s just a nice term for saying what we used to say, which is “we should bring up the bottom 30% into minimum standards of living”. That was the language we used.

In India we have the poverty line, which has a certain element of arbitrariness. But below that you can define the poor right? But the World Bank President Dr Kim says he wants 40% of the population to be brought up out of poverty. What does that mean? The problem is you can’t have the same wretched number for everybody, it is a meaningless thing – where does he get 40% from? I think it’s a bad habit from MDG’s – Millenium Development

Goals – which seem to suggest the same things happen everywhere.

You also have to be careful about how you approach different problems, even within one country. For example, in this debate around MNREGA there is confusion between two things. When you are creating employment first you're just giving money to the poor for getting employed, and two, create assets. So really Tinbergen principle applies: if you've got two targets then you need two instruments. India is using MNREGA as one instrument to do both. So one of the things we are suggesting is now that we want to really separate the infrastructure spending, that also creates some employment but as a side effect.

Could you tell me about your track II reforms and how they are linked to your ideas around liberalisation?

It's not it's not that I don't want money for social spending, I just say and have always said that before you can do the social spending, you have to find the money for it. Now if it doesn't fall like *mana* from heaven, or from Uncle Sam, then you've got to find money.

Think about countries like India, China, Brazil, Indonesia, to some extent South Africa. Talking in the 60s, the poor in these countries made up about three quarters of the poor in the world, and it is also about three quarters of the world's total population. When you have a lot of poor people and very few rich people, how do you manage to get the resources? Even if you dispossess the rich entirely and redistributed it, you'd probably get another burrito or a chapatti a day at best. And so that was a big problem.

The line we took back then was that we had to "grow the economy" – to use the American phrasing. And when you have the growth there'll be two things: one is what we always talk of as trickle down, but my colleagues and I really thought of it as "pull up", meaning that you offer opportunities to people. This can often have wider implications, for example on social issues. Like you say women can get a divorce, but if neither her parents or her in-laws will support her then it is only if she can get a job and support herself that it'll kick in – it's not that it will *necessarily* kick in, but that is an example of where growth can be powerful for social reform as well.

The second thing which I was emphasising way back is if you have growth at any given tax rate you are able to generate some additional revenue. That would then help us do the social spending. What happened in the last few years was that social spending was maintained by the government because it was converted – in constitutional terms – to a fundamental right which is enforceable. If you say these are going to be fundamental rights, and they define in detail – like a school has to have a gym and thins and that and so on and so forth – that's a lot of spending! And if the government doesn't do it then the Supreme Court will say you have to do it because it's a fundamental right.

You're caught you see? Under the last Congress government the growth rate fell for various reasons, for about 4 years. So you had increased obligations and fewer resources coming in. You don't have to know economics to see why that's a problem. It means inflation. It's not what devices, it's not whether we want social spending. But I feel it cannot be done unless we raise the revenues. Social spending is dangerous if we do not because when you get inflation, there are plenty of studies which show that the poor get screwed, badly. So that is why it's been harmful not helpful to the poor.

Moving on to the politics, you mentioned Manmohan Singh's second term had issues economically. What do you think of Modi's first six months?

It's really too early to tell. One place where he put his foot wrong was on the WTO issue. He's supposed to be scaling up trade and investment for India, at the same time he undermines the [Bali Agreement](#). But how many of you students, for instance in economics, would know all the arcane matters relating to WTO? Even I had to consult, because there is so much on it. So what does he do? Like any politicians, he collects the same bureaucrats, the ones that negotiated the Bali Agreement. So what are they going to tell him? That it's fine and he should stick to it. So that's what he did. But I was quite confident – I wrote about it – that once he gets on top of things...many of us

wrote in public about how foolish this was, and inconsistent with the stand we wanted to take on opening up India, that he will change. And he has changed, not as much as one would like, but the Americans have now agreed to go along with it. So I think you can't expect dramatic changes from somebody who has never even thought about these problems.

But do you feel like it's a positive direction that he's aiming for?

Oh, very definitely. And I think the thing that particularly impresses me is that he's supposed to be an RSS guy, you know, but that's what he grew up in. You can't attach that, people evolve over time. He's really been very very sensible in his first few months. So I think there is hope, even though you never know what might happen.

You're here to talk about lessons for developing countries – what do you think India's most exportable lessons are for other developing countries?

I would say for a lot of large countries living with a lot of poverty a lot of what we did is important. And I think the role of democracy is extremely important. I would always emphasise that. It's not exportable, but it's the effect of example. You learn from other people's doing and sometimes from your own undoing...there are all sorts of ways to learn things if you're open to that. India's main lesson is that in fact we have used democracy quite effectively in my opinion. And from the beginning we've been worried about social spending. I think that's important. So if anybody says "we're going to dismantle government etc." it's just rubbish. It's not true that will help, it's been proved over and over.

Now in my opinion democracy is helpful, particularly a liberal democracy with institutions like a relatively free press, because there are different ways in which people can translate their growing aspirations into politically effective demands. That's what's helpful. So, *The Economist* had a big issue once, where they were saying that East Asia was falling behind on social expenditure. And I pointed out to the editor, I said look, the reason why they're falling behind, despite even higher growth, there's no way in an undemocratic system you can make sure that the expenditures are directed towards helping with social spending.

Democracy is part of our endowment basically. That is what has helped us with social spending, because availability of funding is only a necessary condition. It's not a sufficient condition, so I think there one can link up the politics and economics. To me, that's very important because you don't have that in every country in the world.

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Note: This article gives the views of the author, and not the position of the India at LSE blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the Authors

Professor Jagdish Bhagwati is a prominent economist. He has made pioneering contributions to the study of development, globalisation, international trade, foreign aid and immigration. He also writes frequently for leading media worldwide. He has served in many advisory roles, including the GATT as Economic Policy Adviser to Director General Arthur Dunkel and at the UN to Secretary General Kofi Annan on Globalization and on NEPAD Process in Africa. He has also worked with many NGOs, including Human Rights Watch and SA8000.



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