

Introduction: Escape from the Benevolent Zookeepers

How can one best sum up the new India that has emerged since economic liberalization in 1991? Gurcharan Das' recent book calls it "India Unbound". *The Economist*, the British weekly, had in 1990 run a cover story on India titled "The Caged Tiger", and so some people would call today's India "The Tiger Uncaged".

Yet the most accurate description, which I have used as the title of this book, is "Escape from the Benevolent Zookeepers". This drives home the point that the socialist politicians who led our Independence movement, and then shackled us for decades through the licence-permit Raj, were not evil folk. On the contrary, they were golden-hearted, benevolent leaders determined to banish the poverty they associated with British colonialism.

However, 200 years of colonial subjugation had given them a serious inferiority complex. When the British left, Nehru wanted economic independence to buttress political independence. Lacking confidence in India's ability to export its way to prosperity, he sought economic independence by retreating from international trade into a cocoon of self-sufficiency, forgetting completely that international trade had made India a world power for centuries before the British Raj. India's share of world exports was 2.2% at independence in 1947. Thanks to policies emphasizing self-sufficiency, this fell steadily to 0.45% by the mid-1980s. This elicited not dismay but cheers from golden-hearted socialists who felt they had saved India from the predatory world economy.

Critics like me pointed out at the time that other developing countries like Korea and Taiwan had opted for export-oriented growth rather than self-sufficiency, and been rewarded with 10% GDP growth, thrice as fast as in India achieved in its first three decades after independence. The socialists smiled condescendingly and said that these countries were neo-colonial puppets falling into an imperialist trap, and had no future. In fact, of course, the supposed puppets soon became richer in per capita income than their colonial master, Britain. India, alas, remained mired in poverty.

Apart from self-sufficiency, golden-hearted socialism sought to protect Indians from the rapacity of businessmen, and promote prosperity as in the Soviet Union through planning and government domination of the economy. So, they made India the land of a million controls. Everything was forbidden unless specifically allowed. Government bureaucrats with no business experience were supposed to know better than any businessmen what should be produced, where, and how. They were supposed to know better than consumers what was good for the consumers themselves. No citizen had free

choice in buying anything: the government chose on his behalf the list of goods that could be produced or imported.

Entrepreneurs were forbidden to start a business without a licence, forbidden to import raw materials or machinery without a licence, and forbidden to close a business if it was unprofitable. If any businessman was innovative enough to produce more than the listed capacity of his machinery, he faced a jail sentence for the terrible sin of having dared be productive. Narayanmurthy of Infosys recalls that it took him almost two years to get a licence to import a computer and another two years to get a telephone when he was setting up Infosys in the 1980s. All in the public interest, you understand.

Insane though it sounds today, golden-hearted socialism held that prosperity would be best achieved when nobody had the freedom to do anything other than what they were told. Citizens were told that the world was a dangerous place full of predators. So, said the leaders, the licence-permit Raj does not really put you in cages, it puts you in protected enclosures for your own security. In these enclosures we will ensure your daily ration of water and food.

The leaders themselves were not caged, of course. As Orwell foretold in Animal Farm, all in this socialist paradise were equal, but some were more equal than others. Indeed, many of the zookeepers became incredibly wealthy by using controls imposed in the holy name of socialism to line their pockets and create patronage networks. Some not-so-benevolent but pragmatic politicians opposed the lifting of controls simply because it would mean the disappearance of their ability to extort.

Ironically, the same socialists who forbade free choice for citizens in the marketplace sang the virtues of free choice in politics, with no sense of incongruity. By contrast, Lenin in the USSR did not suffer from such inconsistency. He opposed freedom of choice for citizens in both politics and markets. He held that the people had not yet developed revolutionary consciousness, and so the golden-hearted politburo knew better than the masses themselves what was good for them. And so he held that the politburo should decide both political and economic matters on behalf of the masses.

This system was, predictably, better for the politburo than the masses. Let me relate a story I heard from a Polish journalist when Poland was still Communist. A citizen in Poland asked a politician why members of the politburo had access to French champagne when the masses did not. Pat came the answer, "The people of Poland drink champagne through the lips of the politburo."

Indian socialism never quite attained such dizzy heights of hypocrisy. But it conquered some lower ones. RK Laxman once sketched a brilliant cartoon

showing a journalist interviewing a Congress Minister living in a palatial mansion full of expensive artworks. The politician says, "Of course, socialism is applicable to us also. But we have promised it to the people and so must give it to them first."

The fact that for three decades this system gave India only 3.5% economic growth when others in Asia grew twice as fast was frequently justified by saying that, unlike the free-market countries of East Asia, Indian socialism provided social welfare to all. This assertion was simply false. India ranks at a lowly 126 out of 177 countries in the UN Human Development Report. Socialist benevolence failed dismally in social indicators, so literacy, infant mortality, life expectancy poverty and every other social indicator was always far worse in India than in of the Asian miracle economies — Korea, Taiwan, Thailand or Malaysia. Nobel Laureate Amartya Sen has shown that some poor countries in Africa have better social indicators than India.

Vast sums were spent by socialist India on education and health. But these mainly provided salaries to teachers and health staff with an absenteeism rate of 18% to 58% in different states. They were protected from disciplinary action by powerful trade unions. So, the benevolent socialist cage gave Indians neither economic growth nor social justice. This remains an area of grave concern, because opening the cages will not solve the problem of illiteracy and high infant mortality. We need a state that is capable and committed enough to do what the state alone can do — finance the provision of basic social services and rural infrastructure. Alas, the state is so venal and incompetent that it seems incapable of doing this.

All Indians agree that the quality of governance has deteriorated dramatically. At independence, Indians were proud of their politicians, whom they viewed as self-sacrificing heroes who had struggled and suffered jail for decades to get India independence. But today, Indians view politicians as rogues and thieves. In theory, India has an administration, police and courts to ensure rule of law, deliver justice and redress grievances. Alas, these organs of government are moribund. What really work are money, muscle and influence. These have ensured that nobody with resources can ever be convicted beyond all appeals. People like Harshad Mehta and Narasimha Rao died of old age before they could be convicted beyond all appeals.

The result, predictably, is that criminals have joined politics in large numbers. A former Election Commissioner estimated in 1997 that 40 Members of Parliament and 700 members of State legislatures had criminal records. Prime Minister Manmohan Singh chose a Cabinet in 2004 which included six ministers facing criminal charges. German sociologist Max Weber once defined the state as the only entity entitled to use violence with impunity. But if criminals can use violence with impunity, they become, in effect, the state. Law-breakers have become law-makers. So, India has become a land without

justice. This is reflected not only in criminal politics but in a thousand clashes based on caste, religion and region. Moreover, 160 of India's 600 districts have experienced attacks from Maoist revolutionaries, and the situation is serious in almost 70 of these districts.

So, while Indians have escaped from the benevolent zookeepers and achieved record GDP growth of 9% for two years running, they are still in search of a state that provides basic social services, basic administration and justice. By concentrating for decades on building public sector giants, socialist politicians neglected the most basic functions of the state, which are now in a sorry shape. This remains the main risk to economic prosperity.

Let me return to the question, why did well-meaning socialists like Jawaharlal Nehru oppose freedom of choice in the marketplace? Because, they said, free choice is an illusion in a world dominated by *banias*, Indian and foreigners. Businessmen are liars who trap you with false promises. They sell you dud goods backed by misleading advertising campaigns. They use money to bribe their way to success. They use goons to threaten rivals and prevent real competition. They use influence to get all sorts of favours. They constantly manipulate policies and procedures to maximize their private interest rather than the public interest.

Much of this is true, but do politicians in a democracy behave very differently? Do not politicians tell lies and break promises? Do not politicians advertise great policies in glowing manifestos and then deliver something completely different? Do not politicians use money to fix outcomes? Do they not use goons to capture polling booths, threaten or bribe rivals, and so disrupt fair competition? Do they not use political influence to get all sorts of favours for themselves, their cronies and their favourite lobbies? Do they not manipulate policies and controls constantly to get kickbacks and expand their patronage networks? Do they not further their private interest while claiming to represent the public interest?

Of course they do. And yet we nevertheless opt for democracy, for free choice in the political marketplace. Why? Because democracy empowers citizens with the freedom to choose, and this remains invaluable even if it is constantly sought to be eroded or manipulated away by politicians. Democracy, warts and all, is far better than a system where supposedly benevolent dictators decide everything with no manipulation.

For the very same reason, we need freedom of choice in the economic marketplace. The case for democracy and the case for liberal economic policies are the same: both are flawed systems that are nevertheless better than the alternatives. Both empower citizens through the freedom to choose. No matter how tattered at the edges, freedom to choose is nevertheless better than being put in cages by benevolent zookeepers.

After 15 years of economic reform, the cages have been opened and the enclosures have been destroyed one by one. Have Indians been swallowed up by predators, as predicted by the socialists? Have Indian companies been killed by foreign multinationals? Have Indians become neo-colonial slaves?

On the contrary, Indians have flourished as never before. Consider just a few examples.

- Lakshmi Mittal, a small businessman forbidden by Indian policy to build a steel plant in India, went to Indonesia to set up a mini-steel plant. He had no funds to acquire big companies. But his skills and confidence were so formidable that he acquired for peanuts one sick steel plant after another across the globe — Trinidad, Mexico, Germany, Canada, Germany, Kazakhstan. Once established, he then took over the American giant ISG group, followed by Europe's Arcelor, to become No. 1 in steel manufacturing in the world. Far from being eaten alive by imperial predators, Mittal swallowed up the biggest steel multinationals.
- Tata Steel has acquired the Anglo-Dutch company Corus to become the fifth biggest steel business in the world. Corus includes the whole of what used to be called British Steel. Thus, an Indian company has acquired the entire British steel industry as well as other plants in Europe. Some call this the East India Company in reverse. Others say this is the real neo-colonialism. Still others say that Tata-colonialism is now beating Coca-colonialism.
- India's software companies have become world-beaters, and American politicians are terrified that they are going to lose millions of jobs to Indians. Cynics once predicted that Indian software companies like Infosys, Wipro and TCS would be swallowed up by Western giants in due course. But today all the Western giants — IBM, Oracle, EDS, Accenture, Capgemini etc. — have rushed to India to open subsidiaries for sheer survival: they desperately need India's skilled manpower. Accenture now has 35,000 workers in India, more than in the USA. IBM has 55,000 workers in India, and news reports suggest that this may in a few years rise to a whopping 128,000. The operating profit margins of the top Indian companies are far higher than those of the top MNCs. This is reflected in much higher valuations for the Indian majors than global ones in the stock market. The underlying message from the markets is that, if this trend continues, the Indian software companies will in due course take over the foreign ones, not the other way round.
- Even small and medium Indian companies have become multinationals, acquiring plants galore across the world. Essel Propack, which started as a humble producer of laminated tubes for Indian toothpaste manufacturers, has now acquired plants across the

globe to become world No. 1 in laminated tubes. Bharat Forge has acquired five plants abroad to become the second largest producer of automotive forgings in the world, and aims to be number one very soon. All of India's top pharmaceutical companies have become multinationals with acquisitions in several countries. Ranbaxy now sells more abroad than in India.

- Forbes magazine comes out with an annual list of billionaires. In the latest list, India has 36 billionaires, compared to Japan's 24. The list includes people with middle class origins like NR Narayanmurthy, Nandan Nilekani and Senapathy Gopalakrishnan, founders of Infosys. It includes Azim Premji, who inherited a small edible oil business but then built Wipro into a global software major. Shiv Nadar of HCL was once a business executive in DCM, but has become a hundred times richer than his erstwhile employer. India's real estate builders have emerged as among the biggest in the world — KP Singh of DLF, Ramesh Chandra of Unitedech, Jaiprakash Gaur of JP Associates, Vivek Oberoi of Oberoi Construction and Pradeep Jain of Parasvanath Developers are among the billionaires listed by Forbes. They have risen from obscurity to the stratosphere.

What I find especially notable is that the vast majority of new billionaires are self-made men. They have beaten hollow the scions of old industrial families. As Prime Minister Manmohan Singh once said, these are not the children of the wealthy; they are the children of economic liberalisation. Having escaped from the socialist zoo, they have proven that Indians can roam the jungle proud and fearless. For, they are as strong and capable as any others in the jungle.

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