

IN CONVERSATION WITH LORD MEGHNAD DESAI

Meghnad Desai is an Indian-born British economist and Labour politician. He was awarded the Padma Bhushan in 2008. He worked as Associate Specialist in the Department of Agricultural Economics, University of California, Berkeley. He has also been a lecturer at London School of Economics and has taught econometrics, macroeconomics, Marxian economics and development economics over the years.



EB: Do you think the world has recovered from the 2009 financial crisis?

Five and half years later, we are still feeling the effects from it. UK's economy is just supposed to be recovering in 2014. American economy seems to be recovering. The European economies are stagnant since they have the peculiar problem of their currency. Hence, as far as the developed economies are concerned, they have taken the brunt of the financial shock. The crisis was very severe. Many financial corporations which encouraged risk taking. It gave people the false feeling that risk was reduced by equalisation. But the emerging economies were not that badly affected by it.

EB: What are your views on the Euro? Do you think that it will sustain in the long run, given the current crisis it has been through? Further, do you think that the decision of the UK to continue with the pound was a wise one?

To the last question, my answer is that yes, it was a wise decision. The Euro is a private currency and not a state generated currency. The government has no control over the currency. It does not know how much gold came in or went out. The ECB cannot buy the debt of any Euro zone country, unlike the way the RBI can buy the government of India's debt. I am more convinced than ever that the Euro zone was set up in the wrong sequence. It does not have a fiscal policy because it doesn't have a union. So there is considerable problem.

I almost wish that the Euro zone would break up, but even that would be difficult. Greece came very close to breaking up. But if you exit, your own currency devalues. And Greece's debt would have been with the Euro zone. So they would be repaying the debt in highly valued currency. The best thing for the Euro would be to give commercial banks accommodation so that they do not go out of business. The way money supply of the Euro is managed is such that commercial banks can raise money from the central banks through government bonds. So money supply expands through private activity. Central banks cannot expand money supply. And their fiscal position is very tight. Their debt has to be financed by private debt holders. Thus, all that the European Union has been able to do is to create stabilization. It needs to adopt a severe austerity budget like the UK, which has now recovered.

EB: According to you, how significant has been the success of the IT industry, which is proclaimed to be a self-generated miracle, in India's economic development?

In IT industry, one has a first mover advantage, an innovative advantage, because otherwise you copy a patent. IT ceases to be significant unless you can continue to grow. The Infosys crisis shows that even the best firms can get it wrong. I don't think 15 years from now, IT would exist. Technology is moving too fast. We may not use all these laptops and just use our mobile phones in future. Basically, IT is just a sophisticated excuse for the elite for having failed at manufacturing. It is not going to provide employment to rural unskilled manual labour.

EB: Would it be correct to say that India's story today is a story of private success and public failures?

That is a false dichotomy. In India, public policy has always been an important driver. Public policy improved after 1991. Every independent country has its teenage years before it finally grows up. The teenage years of a nation last for about 40 years. China took 30 years, India wasted 40 complete years. But in 1991, we got serious. At that stage, public policy became less of an obstacle to the private sector. By and large, from 1991 onwards there has been a consensus among political parties that liberalisation is the way to go. So public policy is enabling.

I think that there is far too much inefficiency in the public sector, and much of it should be sold. It has been far too capital intensive, and the rate of return on capital is very low, as in the case of the *Navratnas* and other public sector enterprises. Public policy has got to be reforming in nature. Even now, the whole manufacturing issue is a problem of labour laws and inspection. In the past few years, scams have cost India a lot and slowed down its entire self engineering mechanism. What is governance? It is the quality of public decision making and the speed of implementation of such decisions. What is really wasting money is corruption and non implementation. All Asian economies have corruption, be it China, Korea or Japan. What is true is that in India, there is corruption and there is zero implementation. Private sector is also in a sense better at small and medium industries. Large enterprises are crony capitalists, very ill-behaved; they can't really survive in a really properly regulated regime. So, there's collusion between political and capitalist class, and that is how the whole mining crisis happened. Governments were colluding and were not stopping it, and people had to go to the judiciary

ultimately to stop it. The reason behind crony capitalism is bad politics. In India, politics is bad in terms of decision making.

EB: Do you think India's huge population is an asset for the country or a liability? Will India be able to reap the benefits of the demographic dividend?

If you invest in the population, then it is an asset. If you buy a house and don't use it, it doesn't become an asset. So the thing is that mere numbers do not matter. What we need is good quality of human capital, not just a large quantity of it. The Indian education system is very bad, and needs investment. There are also far too many restrictions on migration. People get distressed filling forms, getting them stamped and completing the entire lengthy process. Some of these restrictions have been encouraged to stay by local politicians. The new generation will get its dividend only if its quality is maintained and if it is allowed to take risks. I was looking at the paper today and the proportion of non working population is 60%. You are wasting more than half of your labour force. In UK, labour force participation is 77%. These are not restraints that you cannot relax. Women are not in the paid labour force. So India has much more potential.

EB: Beyond academia, you have played an active role in politics. As a politician and an economist, how do you view the contrast that exists between the populist nature of government policies and their economic viability?

These are two different areas. It's not necessary that politicians become good economists or vice versa. Politicians may make good economists in the form of say, Finance Minister. But politics is one of the most difficult areas of practice. Even economic theory is interpreted differently by different people. You can always find people with good degrees in economics, justifying their opinions in their own way! So economics is still a contentious subject.

Personally, I am much friendlier to free markets. Milton Friedman was laughed at for saying that exchange rates should be free and not fixed. But that whole thing actually changed peoples' lives. In India, economics has been, if anything, bad for country. There has been a lot of internal wastage. Somebody has to take up the role of public intervention about economic thinking. Politics is so powerful but so against sensible economics. Manmohan Singh came and liberalized a little bit, but he is very cautious. So I wait for sensible economics.

ED Board: Could you describe the differences that exist between left wing politics in India and that in UK?

Well, UK doesn't have left wing politics. Left track politics is all basically central politics. All across Europe, there is no distinctive social democratic left. In France, technically, the socialist party is in power, but it's not doing well. In Germany, the left is a part of the coalition. But socialist parties in Europe did not win elections after the financial crisis. Nobody went to the left to cure the problems of capitalism. And I think that from that point of view, the whole idea that there was a distinct socialist alternative is gone. Capitalism is gaining with time, and there is nothing one can do. I wrote a whole book about it called "Marx's revenge". In a sense, what happened was that when the Soviet Union collapsed, the whole Lenin's alternative disappeared. The left didn't realize that distribution needs to be supplemented by continuous production of

wealth. People didn't just see that all substantially non market based economies could perform well. When I was your age, we had no doubt that the Soviet Union would survive. For someone like me, the idea that socialism would not exist was unthinkable. But the USSR collapsed because of its own internal problems. And in India, nobody has noticed that. There's far too much consensual left in Indian politics. Socialism in India is basically populism. And the problem with populism is that it is economically irresponsible, because since it is distributing resources to the poor, the question is who really bears the burden. In UK, after each budget, there is an analysis of who really bears the burden. In India, nothing like that happens. On TV, I was watching a discussion where people were saying that the Aam Aadmi Party's free distribution of water is regressive. And even if it is not regressive, we want to know who actually pays for it? The UPA-II has been completely fiscally irresponsible in the last couple of years. What the left was actually supposed to do was to take up social reform. After 40 years of independence, caste became a dominant path for revolutionary politics. At that time, the really deprived people came close to political power, thanks to Kashi Ram and Manohar Ram Lohia, and that shows the utter failure of the left. The left thought in European terms, but they completely failed to deal with Indian reality.

ED Board: It is widely believed that poverty is a product of capitalism and removal of poverty requires some form of socialism. What is your take on this mistrust of capitalism?

First of all, socialism need not remove poverty. China deliberately abandoned socialism and took to capitalism. And though in India there is a great race to show that poverty is still high, but by any legitimate standards you use, the number of poor have fallen. Basically, poverty is removed if you make people productive. Unless average productivity of workers is high, India cannot be free of poverty. There are limits to income redistribution. Socialism's promise was that by redistribution, they would enhance productivity, but that didn't happen.

The ability of capitalism to continually transform itself by innovation is astonishing. My title "Marx's Revenge", was actually "Marx's Revenge on Lenin", but nobody understood that. Marx never ever said any such proposition that socialism would remove poverty faster than capitalism. He has given a very different reason why socialism can remove poverty, but that is possible only after the full maturity of capitalism. There is no socialist state that I know of where people's income standards are high and the dispersion of income is low. You can always have equality. Adam Smith has a word called servile equality. You can have equality of poverty, such as in North Korea and Cuba. But by and large, and people have chosen not to take that (socialism) path. The greatest development of the last 75 years is how people have abandoned socialism to take up capitalism. The entire Eastern Europe ran to capitalism, the first chance they had. Anytime a country could give up socialism, it gave it up. The fact that China gave it up is one of the most significant developments in the history of socialism.

EB: Do you think we have equality of poverty in India?

We don't have equality of any kind in India. I am a great believer in measurement, and I think that the NSSO is one of the greatest institutions in the world, and it has been measuring poverty consistently.

The statement that almost all of rural India is poor is also not true. The distance between rural and urban areas is gone. There are a lot of goods available in rural areas. Actually, one of the things that the UPA-II has done, partly through populism and partly through procurement prices rising and NREGA, is to enrich the rural areas. When the numbers come out, you'll see that the distance between rural and urban areas in terms of consumption is becoming narrower. To that extent, the old picture of rural and urban India is gone. Things are happening in rural areas that were not possible 10 years ago. Where I object to it is that productivity has not grown equally faster. To that extent, what is need is to drain labour from rural areas into urban areas, into manufacturing.

EB: Some people say that rural poor have now been displaced by urban poor. Is that correct?

The quality of urban poor and rural poor is very different. Even if rural poor have been replaced by urban poor, but the urban poor have access to much more public services than the rural poor. Urban poverty is mostly a matter of the quality of houses. Slums are basically impermanent structures. There are also impermanent structures in rural areas. But if you go to the urban slums in Mumbai, you'll be surprised at how many of them have running water and electricity. You may say that I choose not to invest in my housing but to spend more on my children's education by sending them to a better school. What is so great about a *pukka* structure? So, from that point of view, urban slums are basically people coming to urban areas and getting accommodated here. Lots of small and medium enterprises prosper in slums. And slums are the most efficient use of materials. You economize on land and space. Le Corbusier, a famous planner, decided that there was too much space between the floor and the roof. So he built an industrial worker's space which had bunk beds. That is exactly what slums do. Further, land is very expensive in India, and there is a big racket in infrastructure development. Hence, housing inequality is greater than any other kind of inequality. Maharashtra has even tried giving out permission for new buildings only if you re-house some number of slum dwellers, but people just sell them to someone else and move back to the slums. . The solution, thus, is not to remove all slums, but to provide facilities like better drainage and running water.

EB: Sir, you are of Indian origin. Just out curiosity, we would like to know what led to you being awarded as the title of 'Lord'.

I left India when I was 21 and went to the US. But later, I went to UK because the Vietnam war was on and I did not have a green card. When I was in UK, I was very supportive of the student rebellion and I joined the Labour Party. Later, I became Chairman of the Labour Party for six years. I began to take part in debates and so on. That's how I became a 'Lord'. It's not something I knew I was going to achieve, but it happened out of my contribution to politics.

ED Board: What would be your advice to prospective economists and young students like the readers of Aapoorti?

In my life, it is only hard work the refusal to accept any authority that has worked for me. Rebel all the time, and think positive. Nobody deserves 100% relief on any grounds. I never did well in India because I could not give the expected answer. Just remember that 95% of people are wrong 95% of the time, and you will be all right.