

Twenty-Three

A New Country

When old words die out on the tongue, new melodies break forth from the heart; and where the old tracks are lost, a new country is revealed with its wonders.

—RABINDRANATH TAGORE

At the beginning of the twenty-first century, I feel as I believe my parents did on 14 August 1947. On that day, Nehru gave voice to their sentiments, saying, “We end today a period of ill fortune and India discovers herself again. The achievement we celebrate today is but a step, an opening of opportunity to the greater triumphs and achievements that await us. Are we brave enough and wise enough to grasp this opportunity and accept the challenge of the future?”

The brutal fact is that India’s economic failure has hidden so many of the triumphs and achievements that Nehru dreamed of, and it is further behind, relative to the rest of the world, than it was at Independence. Fortune, however, works in mysterious ways. Just when we were resigned to our fate and had begun to believe that we were a hopeless case, our situation changed. The *Economist*, which has an uncanny way of penetrating these mysteries, agrees. It wrote in August 1997 that India “today stands at a new threshold, with greater triumphs and achievements once more in sight.”

Based on modest reforms in the eighties, our growth rate picked up from the historic 3.5 percent “Hindu rate of growth” to 5.6 percent a year for the 1980s decade, and the middle class began to grow vigorously. But this growth rate was unsustainable because it was based on excessive borrowing, which plunged us into an unprecedented financial crisis in 1991. One could argue that we needed the crisis: it forced us to undertake the most comprehensive reforms in our history. The reforms have released entrepreneurial energies the like of which we have never seen before. They have also changed the mind-set of the Indian people.

Meanwhile, the world has also changed to our advantage. The communications revolution has brought the world into our homes and we have come to realize how far we have been left behind. The rapid flows of global capital have made us aware that lack of capital need not be an obstacle and we need not be capital-starved for all time to come—we can supplement our needs with imported capital. The information technology revolution and the Internet have come along and leveled the playing field, bringing with them the promise of solving some of our most intractable problems of development and doing so much quicker than we could ever have imagined.

India, thus, enters the twenty-first century on the brink of the biggest transformation in its history. The changes are more fundamental than anything that the country has seen, and they hold the potential to transform it into an innovative, energetic economy of the twenty-first century. We have realized that our great strength is our people. Our great weakness is our government. Our great hope is the Internet.

Perhaps at last we have found the right policies, and there is a growing will to implement them. It is not going to be easy, for the old statist policies have enriched the vested interests, especially the state personnel—elected, appointed, or their hangers-on. But change will take place because too many know too much—through television, cable, and increasingly the Internet. Millions talk to their relatives overseas. They may not be able to articulate economic policies, but they see clearly enough who has power and who does not, and whose is legitimate and whose is not. While the impulse to control will diminish slowly in a country with a vast bureaucracy, the flood of information that will wash every village will force transparency in the government and lead eventually to prosperity.

The memory of the two temple priests who started a software company and were waiting peacefully beside me at the Madras airport with cell phones dangling from their dhotis jostles with that of fourteen-year-old Raju, who hustles between tables during the day and learns computers at night, and has visions of becoming “Bilgay.” These are images of the brave new India. They compete with other memories: of Vikas, the proud Dalit in feudal Uttar Pradesh, who would prefer to make steel trunks rather than bribe someone to become a bus conductor; of Ashish Dhawan and Raj Kondur, who used to dream together when they were companions at Harvard Business School and who today run a \$65 million venture capital fund with a mission to build a new India by empowering entrepreneurs; of Sushila, who makes shoes for Florsheim and Hogarth and a dowry for herself (she makes them with care because she knows that the secret of success in the global economy is to “exist for your customer”); of austere Narayana Murthy, who not only created India’s most successful software company but has become the role model of ethical corporate behavior; of Parvinder Singh, who built India’s largest pharmaceutical company, Ranbaxy, based on research, and who, before he died of cancer in 1999, passed on the reins of his company to a professional manager rather than his sons; of Kum Kum, the “flower girl” at the traffic light in Delhi, who stores her flowers in a refrigerator because it gives her competitive advantage. There are, I am sure, a million more such inspirations—they are the “million reformers” of India.

The new India’s future depends on them far more than it does on the old politicians of the License Raj. It is ironic that the Congress Party, which liberated us in 1991 with the economic reforms, is now trying to stall them in the name of the poor. The insolent technocrats at the Department of Telecom are so bent on preserving their monopoly—the consumer be damned—that they sabotage every initiative to bring us competition and world-class communications. The unions in the public-sector banks go on strike every time there is talk of reform and privatization. The right wing of the BJP wants to close the economy to foreigners in the name of nationalism. The left-wing intellectuals in the universities continue to fill the minds of our young with postmodern, postcolonial theories of multinational conspiracies and other variants of impotence. The old protectionist businessmen still rely too much on natural resources, cheap labor, and government favors; they do not invest in capabilities to produce differentiated goods and services that create value for demanding global consumers; they continue to be trapped in their old ways and want to compete solely on the basis of price. In the end this tends to suppress wages, and to keep wages low is to compete to see which country can stay poor the longest. These are the many forces of reaction that could stop the million reformers. They fight the reforms at every step but they fight a losing battle.

The theme of this book is how a rich country became poor and will be rich again. We have seen that India had more than a fifth of the world's wealth and a quarter of the world's trade in textiles in 1700. It has seen its share decline to less than 5 percent of world income and less than half a percent of world trade by 1995. It may not have become poorer in absolute terms, but relative to the rest of the world it did get left behind. We have gotten so used to the inequality between the rich and the poor countries that we forget the astonishing truth that living standards around the world were roughly equal in 1750—everyone was poor. Even in 1850 things were not very different. Today the average person in the developed world is ten to twenty times richer. This happened, as we have seen, because of the capitalist breakthrough which began in England between 1760 and 1820, with the invention of the cotton gin and the steam engine, followed by a wave of technological innovations in Europe and North America, with the railroad, the steamship, and steel. Soon after came the advent of electricity and the beginning of the explosion in the middle class and of mass consumption in the West. In the first half of the twentieth century, the automobile became the driving force of growth. The invention of the chip and computers after the Second World War increasingly electrified life, and led to today's information society. With the emergence of Japan and the Far East in the last quarter of the twentieth century, the world became a global economy, abetted by the incredible expansion in world trade, communications, and cross-border capital flows.

This creative dynamic of technology and capitalism has dramatically shortened the time it takes for a nation to develop. It took Britain fifty-eight years to double per capita output (after 1780); the United States took forty-seven years (after 1840); Japan took thirty-three years (after 1880); Indonesia took seventeen years (after 1965); South Korea took thirteen years (after 1970); and China ten years (after 1978). Poor countries should grow faster and eventually catch up if there is political stability. The eight high-performing countries of East and Southeast Asia not only grew rapidly but also showed that they could eliminate poverty. In Indonesia the percentage of people below the poverty line dropped from 58 in 1972 to 17 in 1982; in Malaysia it declined from 37 in 1973 to 14 in 1987; in Thailand from 49 in 1962 to 26 in 1986; in Singapore it dropped from 34 in 1972 to 10 in 1982; in China an estimated 160 million people have emerged from poverty since 1979, when its reforms began. Life expectancy has grown from an average of fifty-six to seventy-one years across the Far East. Although many Far East countries did get into trouble in the late 1990s, they have shown that it can be done. And they have begun to recover.

India did not participate in this great adventure. We grew up believing that our “mixed economy”—the mixture of socialism and the free market that grew out of Jawaharlal Nehru's idealist vision—though not as efficient as capitalism, was better because it cared for the poor. It was better than communism because it preserved political freedoms. But its problem was of performance, not of faith. If it had worked, most of the Third World would be more prosperous today. Indians have learned from painful experience that the state does not work on behalf of the people. More often than not, it works on behalf of itself.

It is no use getting depressed at the thought that we might never have an industrial revolution. It is in the past, and there is no point in trying to re-create the past. We would do better to skip the industrial revolution and leap right into the information age. Our economy is increasingly powered by

the knowledge sectors of the economy. Indian newspapers use the shorthand “ICE” to refer to these sectors—“I” for information, “C” for communication, and “E” for entertainment and media. As in America, these employment-intensive sectors have been at the forefront in recent years in creating exports, jobs, and wealth in India. Capital markets have understood this well. From 2 percent of market capitalization three years ago India’s ICE companies have grown to account for 34 percent of the National Stock Exchange and are projected to cross 50 percent in 2001.

Many Indians are frightened by the idea of bypassing the industrial revolution. They ask, “But won’t we still need clothes to wear, and cement and steel to build our homes?” The answer to such fears is that the value added in the new ICE economy is far higher than in the old economy. Put another way, a little bit of Indian software will be able to buy a great deal of a generic commodity like steel. In the globalized open economy governed by the WTO, we will make only what we are good at—where we have a comparative and competitive advantage—and we will import the rest. Fortunately, we are competitive in many areas: we will, for example, make aluminum, cement, and pharmaceuticals, but we will import steel and fertilizers. We are also low-cost producers of at least twelve agricultural commodities. Once we reform our agriculture and the world opens its agricultural markets, we should be able to rapidly gain significant world market share. It is also worth remembering that the new economy is largely a service economy and creates many more jobs. The old economy is increasingly cutting jobs, downsizing, mechanizing, and becoming even more capital-intensive. India, with its vast intellectual capital—two million low-cost English-speaking graduates—is in an excellent position to provide “knowledge workers” to the global economy and benefit from the knowledge revolution. With competitive advantages in agriculture and the new knowledge economy, it may in the end be all right to skip the industrial revolution.

If our bureaucrats and politicians killed our industrial revolution, won’t they do the same with the knowledge revolution? I believe they will not prevail this time around, for several reasons. One, because our economic reforms are curtailing their ability to inflict damage. Two, because high-technology business is virtual and it is difficult to control what you cannot see. Three, because the Internet creates transparency and brings transactions into the public domain. It undercuts the bureaucrat’s power, which is based on the bartering of knowledge.

Many are rightly skeptical about the new economy’s ability to spread to the masses. They can only see the “digital divide.” It is true that people will benefit only if they have education. It is also true that four out of ten children in India are illiterate. It is worse for girls and in the backward northern states, where teachers are often absent, schools lack the basic facilities, children are not motivated and they drop out. But there is a hopeful sign: there is a newfound thirst and enormous pressure from below for education. In the past six years, literacy has risen from 52 to 62 percent. This is a huge improvement, and if this trend continues, universal literacy is not far behind—despite the politicians. The happiest news is from the most backward states, where growth has been the highest; and among girls, literacy has grown faster than among boys. These figures come from a smaller sample and will hopefully be confirmed in 2001. In some states responsibility for education is beginning to shift to the elected village panchayat councils, and this has brought more accountability. Madhya Pradesh and Andhra Pradesh are leading the charge, and their citizens have returned the favor by reelecting their

leaders. So perhaps there is hope. If there is one thing that could secure our future, it is vigorous attention to building human capabilities.

Nature gave India the gift of immense human potential. In today's global economy a country's status is determined by the share of brains that it uses and the share of brands that it commands. When the government liberated the Internet from the monopoly of the state-owned VSNL, it harnessed millions of young Indians' minds. If it opened the trade in agriculture, it would harness millions of farmhands. The most effective way to unleash the power of human capital is through education. The ten most important Indians are the education ministers of the ten largest states; the next ten are the secretaries to these ministers. Alas, they do not realize their historic mission. The United States, the European Union, and East Asia are all embarked on massive plans to accelerate the development of their human capital, and we are in a race. We may, in fact, have some advantages over our competitors. For every student China sends to the university, India sends six. But these advantages will be quickly dissipated unless we act.

A truer measure of India's failure is not its poverty but its inability to create a middle class. India's middle class was less than 10 percent of the population in 1984–85, according to the National Council of Applied Economic Research (NCAER). Since then it has more than tripled but is still less than 20 percent. If the economy grows 7 percent over the foreseeable future and the population 1.5 percent, if the literacy rate keeps rising, and if we assume the NCAER's historical middle-class growth rate of the past fifteen years, then half of India will turn middle class between 2020 and 2040. To be sure, there will be huge disparities. Much of west and south India will turn middle class by 2020, but the backward states like Bihar, Uttar Pradesh, and Orissa won't get there before 2040. Disparities are obviously bad, but vigorous migration helps to ameliorate them and creates pressure on the backward states to catch up. At these milestones, based on the same growth assumptions, India's individual purchasing power will climb to \$5,653 in 2020 (from \$2,149 in 1999) and \$16,500 in 2040. (These projections are based on current purchase power parity [PPP] with the U.S. dollar—whereas, of course, PPP index changes as income rises; the projections are indicative for our purposes of what is to come.) When half the population in society is middle class, its politics will change, its worldview will be different, its poor will be fewer, and society will have greater means to look after them. Thus, to focus on the middle class is to focus on prosperity, unlike in the past, when our focus has been on redistributing poverty. This does not mean that one is callous. On the contrary, the whole purpose of the enterprise is to lift the poor—and lift them into the middle class.

There are pessimists, however. Like Malthus, they moan about India's rising population. Like Ricardo, they worry about the ability of our land to feed the people. The fact is that Malthus and Ricardo have been proven wrong. India's situation illustrates this. In the spring of 2000, its population crossed a billion when the nation's warehouses were bulging with grain and the main concern of the agriculture ministry was how to dispose of this mountain of grain without incurring a loss. Admittedly nutrition levels are still low, but people no longer worry about India's food problem; as we observed, the last famine occurred during the last days of the British Raj in 1942–43. Marx understood far better than Malthus, Ricardo, or our current pessimists that growth is natural in a market economy and there is a positive link between technological advance and wealth. Although the

old Malthusian perspective is no longer relevant, it is important to remember that there are wide diversities in India's population growth rate, which is falling very rapidly in some regions and very slowly in others. Studies show that the difference between the two trends is explained largely by female literacy and female job opportunities. Thus, gender equity and women's empowerment seem to be at the heart of the matter.

Critics also ask if it is actually wise for countries like India and China, possessing half a billion peasants each, to attempt to mimic the high-tech revolution emerging from the very different socioeconomic structures of California. One says, "Even a hundred Bangalores would not solve India's poverty." Another asks, "Given their social structures, can India or China take the strain of creating world-competitive high-tech enclaves (presumably enjoying the material benefits that would flow from their global success) in the midst of hundreds of millions of their impoverished countrymen? Enhanced technology is supposed to have a 'trickle-down' effect, but does that work when the ratio of highly skilled to unskilled in the population is so disproportionately low? Might not the resources allocated to catching up with the developed world's computer, aerospace, and communications technology and the rest be more usefully diverted into appropriate technologies to expand productivity in the village?"

These were the same doubts that people had in the 1960s when they wondered if it was appropriate for India and China to mimic the industrial path of the West. To ask such a question implies that India and China should not even attempt to catch up. That is a politically unacceptable choice. Even if it were feasible, the simple answer to these doubts is that we must push forward at all levels—advanced, intermediate, elementary, on the farm, in the factory, and on the Internet.

Words can be treacherous, and there is no expression in the English language more deceiving than "trickle down." It suggests that as an economy grows, the rich get richer, and then as a few crumbs fall off the table, the poor also become better off. The expression originated in the fifties, in the work of the influential Harvard economist Simon Kuznets, who concluded that inequality tends to increase during the early stages of development and then decrease later on. Serious economists no longer accept this hypothesis, but the power of popular expressions is such that we continue to remain victims of dead ideas. The latest evidence, which thoroughly demolishes the Kuznets hypothesis, comes from the World Bank's Development Research Group. An empirical study of eighty countries over forty years, entitled "Growth Is Good for the Poor," shows that the income of the poor rises one-for-one with overall growth—that is, the income of the poorest fifth of the population rises at the same time and at the same rate as everyone else's. Thus, simple economic growth does more to alleviate poverty than all the subsidies and poverty programs.

At the beginning of the twenty-first century, political and economic institutions have converged around the world in a most remarkable way. Deep ideological cleavages divided the world in the last century; monarchy, communism, fascism, and liberal democracy bitterly competed for political supremacy. Centralized planning, corporatism, free markets, and protectionism competed for economic supremacy. Today, virtually all countries have embraced or are trying to adopt liberal institutions of democracy and market-oriented institutions of capitalism as they integrate themselves into the global economy and the global division of labor. For fifty years India has been a political

democracy, which has given voice to the lower castes through the ballot box and shown the world how political democracy can translate into social democracy. It has now become one of the fastest-growing economies in the world, and it wants to disseminate information technology tools to the common people. The government's goal of "IT for All by 2008" reflects an understanding that the spread of information technology is an opportunity to overcome historical disabilities and compress the time needed to reach comprehensive development goals. If India succeeds in its path of liberal market-based democracy—as it has every right to expect—it will shed new light on the future of liberalism in the world.

One of the great achievements of modern times is a liberal conception of humanity: the view that there are universal and inalienable human rights, and that powers of reason can honor these rights and eradicate poverty and social distress. The problem with liberalism, however, is that in search of freedom and social justice, liberals either get impatient or have to exert power through vast bureaucracies. This leads to experiments of political and social engineering. Nehruvian socialism was one such experiment, carried out in a relatively benign manner. Stalinism was the ruthless extreme, at the other end of the scale. Lionel Trilling, the American literary critic, feared that liberals in power always ran the risk of becoming illiberal. Nehru, the liberal, did not realize that socialism would lead to statism and seriously compromise the very freedom that he had fought so hard to win, suppressing the innovative energies of his people. Fortunately, we seem to have learned from our mistakes and there is again a liberal consensus in the world.

The consensus on capitalism and democracy does not mean, of course, that we have solved our material or social problems. Far from it. It merely means that in this postindustrial age we have given up the path of social engineering or total solutions. We have given up the hope that the government can solve our problems. It is still too early to say whether this consensus will deliver human progress for all. That is why India's is such an important test of liberalism.

Even a superficial reading of twentieth-century history teaches that it is dangerous to be too enthusiastic about any political, social, or economic system. Communism, fascism, and socialism have all done incalculable harm. So has nationalism of various enthusiastic varieties. Too much passion about one's ideals also encourages a moral self-righteousness, which is not pleasing to behold. For this reason E. M. Forster gave only "two cheers to democracy," reserving the full three for "love, the beloved republic," as he called it. Forster wisely believed that the satisfactions of private life are inherently superior to those provided by any political order.

There is a powerful consolation that India affords to the world at all times, which is even more precious today. The relentless onslaught of globalization makes people everywhere deeply uneasy. The prospect of living in a homogenized and faceless world is not a pleasant one. No one particularly likes the idea of the global culture. The global media ensures that we increasingly watch the same banal shows, hear the same capsuled news, listen to the same silly advertising slogans, and are moved by the same collective emotions. Regimentation under a mass consumer society of worldwide dimensions is a stifling prospect. And for what—so that we may have more and more consumer goods and material possessions? We are lost in a maze of large and anonymous organizations. We are filled with a profound sense of being alone in this unheroic world, with little control over our destinies. At

other times we react to our alienated existence with tedium and boredom. These feelings of loneliness and alienation are the most acute in the most successful and competitive economies—the United States, Japan, Germany, and South Korea.

To this lonely and banal world India offers a spiritual guide to the art of living. Despite the spread of the industrial society in the past fifty years, spiritual practice and family bonds continue to be nurtured in Indian life. This is not confined to the uneducated masses. Some of the most successful and rational people in all professions continue to turn to the spiritual. They do so for a number of reasons—as a solace against the madness and emptiness of contemporary life, as a true search for the meaning of life, as a matter of observing tradition, as a turning away from failure in the material world. Whatever the reason, religion and spirituality continue to have a powerful hold on the Indian psyche in all walks of life.

In the past fifty years more and more spiritual movements from India have been exported to the West—a few of them were by charlatan gurus, but the vast majority of them provided attractive and established spiritual solutions to the art of living. This explains the persistent hold of India as a destination for young people in the West (and increasingly the East) seeking an alternative way to live their lives. Neither is this a new fad. The tendency goes back two thousand years. Fa Hien and Huen Tsang, two Chinese travelers, came looking for Buddhist wisdom. Alberuni, an Islamic scholar who was more interested in the rational achievements of the Hindus in mathematics and astronomy, was attracted by Vedanta. Later, after the West discovered India, great nineteenth-century intellectuals like Goethe, Schopenhauer, and Nietzsche were influenced by Indian philosophy. In more recent times, Theosophists, Ramakrishna Missions, Transcendental Meditation, and numerous spiritual and yoga organizations have introduced the world to the “Indian way of life.”

This “Indian way of life” presents an appealing alternative to a developed postindustrial liberal society that has solved its material problems. It may also be attractive to those individuals who cannot cope with the “anxiety of liberalism.” Indians, who have been economically slower, are in a better position to defend themselves against the challenges of globalization. Having said that, this “Indian way of life” is no substitute or excuse for a hardheaded, rational approach to solving our problems of poverty, illiteracy, and disease.

The history of the twentieth century has left the West deeply pessimistic. This is in contrast to its optimism in the nineteenth century, which was based on two beliefs: one, modern science would improve human life and conquer disease and poverty; two, democracy would rapidly spread across the world and vanquish tyranny. The futile 1914–18 war, followed by the genocides in Hitler’s Germany, Stalin’s Russia, Mao’s China, and Cambodia, totally undermined its confidence. India’s experience of the twentieth century was different. We won our freedom from colonial rule and followed it up by building a healthy, vibrant democracy and improving the situation of the lower castes. Economically, we may not have performed as well as the Far East nations, but we did conquer famines and end economic stagnation, and we have now begun to grow rapidly. The old Congress-dominated centralized Raj is as completely in the past as the British Raj. The new India is increasingly one of competition and decentralization. And now, thanks to our intellectual capital and the opportunities opened by technology and globalization, we face the very real prospect of

conquering the pervasive poverty that has characterized the lives of the majority of the people. We have good reasons to expect that the lives of the majority of Indians in the twenty-first century will be freer and more prosperous than their parents' and grandparents' lives. Never before in recorded history have so many people been in a position to rise so quickly.