

SYNOPSIS

of Friedman on India

edited by

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1. What is the reason for India's disappointingly slow rate of growth? Frequently given explanations are religious taboos, the caste system, a fatalistic philosophy, un-enterprising and slothful large population, hot and humid climate. These factors may have some relevance in explaining the present low level of income in India, but they have almost none in explaining the low rate of growth. The correct explanation for India's slow growth is not to be found in its religious or social attitudes, or in the quality of its people, but rather in the economic policy that India has adopted. India lacks none of the basic requisites for economic growth except a proper economic policy.
2. The hope for India lies not in the exceptional Tatas or similar giants, but precisely in the hole-in-the wall firm, in the small and medium size enterprises, in Ludhiana not Jamshedpur; in the millions of small entrepreneurs who line the streets of every city. If their enterprise and drive could be given full rein, and not hampered and hindered in every direction by governmental interference and control, India could achieve a rate of growth that would exceed today's fondest hopes.
3. The Achilles heel of the Indian economy is the artificial and unrealistic exchange rate. Automobiles provide a striking example of the economic waste produced by this policy. In the name of restricting "luxuries" to "save foreign exchange," import of automobiles from abroad is in effect prohibited, whether these be second-hand or new. But at the same time, new automobiles, copies of foreign makes, are being produced at very high cost in small runs under extremely uneconomic conditions. Many of their components are imported, and many of those made in India use indirectly imported materials. The result is that not only is the total cost of the amount of motor transportation actually produced multiplied manifold, but even the foreign exchange cost is probably larger. The results are most striking in the market for second hand cars. Clearly, the sensible way for India to get automobile transportation is to import second-hand cars and trucks from abroad. Aside from the direct saving through getting the cars cheap, this would have great indirect advantage in promoting technical literacy, using the abundant manpower resources of India, and conserving capital. But India in effect says, "We are too poor to buy second-hand motor vehicles from abroad, we must buy new ones at home!"
4. In any economy, the major source of productive power is not machinery, equipment, buildings and other physical capital; it is the productive capacity of the human beings who compose the society. Destroy the physical plant of the United States and leave the skills of the people and it would take but a few years to restore the initial position. Destroy the skills and leave the plant and the level of output would sink irretrievably. The cathedrals of medieval Europe, the pyramids of Egypt, the monuments of the Moghul Empire in India

are all testimony to the possibility of a high rate of investment in physical capital without a growth in the standard of living of the masses of the people. These considerations are especially important for India, precisely because its frontier is the frontier of technical knowledge and skill.

5. It will take a major political or economic crisis to produce a substantial change in the course of India's economic policy.
6. Economic planning is adverse to economic development. It is an inefficient way to use the knowledge available to the community as a whole. That knowledge is scattered among millions of individuals each of whom has some special information about local resources and capacities, about the particular competence of particular people, characteristics of his local market, and so on in endless variety. The reason the free market can be so efficient an organizing device is because it enables this scattered information to be effectively coordinated and each individual to contribute his mite. Economic planning substitutes the knowledge and information available to government officials for this scattered knowledge. The people at the centre may individually be exceedingly intelligent and informed much more so than the average participant in the economic process. Yet even so their combined knowledge is meagre compared to that of the millions of people whose activities they are seeking to control and coordinate. It is the height of arrogance--or perhaps more realistically, of ignorance--for central planners to suppose otherwise. Secondly, growth is process of change; it requires flexibility, adaptability, and the willingness to experiment; above all, is a process of trial and error that requires an effective system for ruthlessly weeding out the errors and for generously backing the successful experiments. But centralized economic planning tends to be cumbersome and rigid. A third major defect of planning is the strong tendency for planners to go in for prestige projects—to leave monuments to their activity, perhaps in the form of flashy international airlines, perhaps of highly mechanized factories when more labour-intensive techniques would be better suited to the country's needs, perhaps of luxury hotels like the Ashoka, or perhaps of major dams when a large number of small scale tube wells might be far better.
7. There is much talk of restricting “unessential” imports and permitting only “essential” ones. But this is just talk unless there is some way of determining what is and what is not essential. In the absence of a market test, there is in fact no satisfactory way to do so. When a family must reduce its expenditures, it does not cut out whole categories of goods; it cuts its expenditures a little here and a little there, balancing the loss from spending a rupee less on toothpaste with that from spending a rupee on movies and so on in infinite variety. The same principle applies in restricting imports to the amount that can be purchased with the foreign exchange available. But how can planners have all the necessary information about each of the tens of thousands of items imported and make rational trade-offs? One alternative, which retains central control over the amount of foreign exchange to be released, is to auction off whatever amount of foreign exchange it is decided to release, permitting the purchasers to use it for anything they wish and in any currency area they wish.

8. The virtue of a free market is that it is a profit and loss system. If it were permitted to operate, it would quickly and ruthlessly weed out many who are currently protected by the ubiquitous controls. Private industry should be made to stand on its own feet without either favour or harassment. In India as in the United States, existing private entrepreneurs are in practice among the most effective enemies of free enterprise.
9. There is only one prominent professional economist, Professor B.R. Shenoy of Gujarat University, who is openly and publicly and at all effectively opposed to present policies and in favour of greater reliance on a free market. He is a remarkable and courageous man. He remains a prophet without honour in his own country.
10. The problem of trade is frequently considered separately from that of the import of foreign capital. This is a mistake. Imports of goods may bring with them no capital directly but they bring businessmen and contact, and discovery of investment opportunities by people who are anxious to exploit them and who have contacts at home interested in such opportunities. Such continuous and intimate contact is likely to produce both a larger and, equally important, more productive flow of foreign investment than any number of missions coming out for brief periods with the objective of exploring investment opportunities.