Silver Jubilee Celebrations

18 August 2010 - 15 December 2011

Closing Ceremony

15 December 2011

Abdul Nazir Sab Hall, Institute of Social Sciences, New Delhi

Chief Guest:

Lord Meghnad Desai, Professor Emeritus, London School of Economics

Welcome Address

Dr. Ash Narain Roy, Director, Institute of Social Sciences

We are very grateful to Lord Desai who has been kind enough to grace this occasion. It is a great honour and privilege to have you with us on this auspicious occasion.

On this day when we are marking the end of our Silver Jubilee celebrations, let me first of all, congratulate ISS faculty and staff. Thanks to their commitment and hard work, we have reached this milestone. A journey is best measured in friends than miles. We thank our friends and well-wishers many of whom are here with us. On this occasion, I wish to mention one name, that of Balwant Singh, who had worked with us from day one, passed away last year.

All great achievements happen in small steps. The British Empire was once described as an oak tree in a plant pot. Twenty five years ago, we were off on a voyage across the unchartered seas, bound for a land we did not know. But we had one great advantage—we had visionaries by our side who helped us swim across the turbulent seas. And the captain was Dr George Mathew.

All my colleagues and staff join me in congratulating Dr Mathew on this occasion. It is indeed a day to thank Dr Mathew. Dr Mathew has many qualities and many weaknesses. This evening I will talk of only one weakness—weakness to dream big.

A related weakness is to befriend big people, big leaders, thinkers and intellectual giants like Lord Desai. Dr Mathew is a believer (I am not talking in religious term) in a world that doesn't believe. But he believes in believing. That is his strength.

Arthur Miller, great American playwright and essayist, described a great newspaper as a nation talking to itself. The Institute is too small to compare itself to a newspaper. But we also do some talking and also speak for, of and to the nation. Besides research in the field of grassroots governance, the Institute also engages in advocacy. However, we have tried that the energy of advocacy work is not sapped by NGOism.

Lord Meghnad Desai has a large fan following. Many of them have come from Delhi University. Some told me they have come this far as they missed him when he last visited DU. As most of you know, Lord Desai, Professor Emeritus, London School of Economics, has taught at LSE since 1965. He is an internationally renowned economist and author of international repute—books and research papers included. But he is also an important Labour Party leader.

Lord Desai, in his own words, is 24X7 kind of reader. Not many of us know that he read K.M. Munshi's '*Gujarat No Nath'* (The Lord of Gujarat) 30 times. His father finally had to ban it. Lord Desai has written extensively on globalization and global governance. Two of his books readily come to mind—*The Possibility of Deglobalization in Globalization, Inequality and Social Capita*l and *Marx's Revenge: The Resurgence of Capitalism and the Death of Statist Socialism.*

However, what he calls his "greatest achievement" is *Nehru's Hero Dilip Kumar.* Lord Desai saw some of Dilip Kumar films more than 15 times.

We are all eagerly looking forward to the speech—50 Years of Development Thinking. Over the past three quarter centuries, the world seems to have undergone wild pendulum swings—market to state to market to state again. One has seen shifting positions of economists as well.

Once Keynes was accused of inconsistency in a public meeting between what he was saying and what he had said five years earlier. Keynes retorted:

"When the facts go against my proposition, I change my mind—what, sir, do you do?"

Today we have some scholars who argue that development is one of the most abused words. Smitu Kothari calls it dangerous because it can be used by anyone to justify almost any economic, social and cultural activity."

Today there is a growing view that stick plaster solution will not bring mortally wounded global economy back to life.

Thank you very much.

Presidential Address

Dr. George Mathew, Chairman and Founding Director, Institute of Social Sciences

The 25-year journey of the Institute of Social Sciences has been far from smooth, but it has been exciting and satisfying. When the Institute was registered on 28 August 1985, the country was recovering from the turbulent times it had witnessed a decade earlier. Even democracy had been challenged and the concentration of power in the hands of the few had pushed the people on the margins. Instead of people's power, the country had oligopoly of power. The power to the people, therefore, became a rallying point for many intellectuals, activists and concerned citizens. It is against this background that the Institute found its institutional expression.

The Institute's birth was also necessitated by the extraordinary demand for the intellectuals and activists to come forward on a common platform not only to create knowledge but also to share it with policy makers, workers, practitioners, organizations and others. When I had the opportunity to meet intellectuals, committed democrats, civil society and human rights activists of the time between 1980 and 1985, the idea got crystallized to start a forum "dedicated to a systematic study of social issues and problems that confront India in a trans-disciplinary perspective". The primary aim of the Institute was the evolution of an informed and action-oriented public opinion.

It is a matter of great satisfaction that an Institute which could integrate research with action could find its feet. The Institute has made modest contribution in areas such as decentralization of power, local governance, empowerment of women, fiscal decentralization, multi-level federalism and human rights, to name a few.

All those who supported the Institute wanted it to be an independent institution which will grow as a think tank. It was indeed a difficult and strenuous task especially as far as the finance was concerned. But many organizations and even the Union and State governments came forward with support at critical times. Finance is still a problem considering our vision and mission as well as the challenges ahead.

The silver jubilee celebration was launched by the former President of India Dr. A. P. J. Abdul Kalam with a lecture on "Sustainable Development and Leadership" on 18 August 2010, and special address by Lord Bhikhu Parekh, Centennial Professor, London School of Economics, and Prof. U. R. Ananthamurthy, writer and academic, and the then Chairman of the Institute.

During the year we had a series of programmes. I would like to mention two: First Dr. Yang Jianli, Harvard Fellow. He was the Designated Representative of 2010 Nobel Peace Laureate Liu Xiaobo of China at the Award Ceremony in Oslo. Dr. Jianli was the speaker at the special silver jubilee programme at the Institute.

The most memorable event during the silver jubilee year was the visit of His Holiness the Dalai Lama and his lecture on 'Human Approach to World Peace'. His Holiness unveiled the portrait of our dear friend and supporter Shri George Fernandes. The portrait was drawn by a Burmese artist, Mr. Sitt Nyein Aye. Most of you know that George Fernandes' house was a place for Burmese refugees. I have no words to thank George Sab for helping from behind to build this Institute. The first contribution for this Institute was from five trade unions of Bombay, which Mr. Fernandes mobilized for us.

On this occasion we pay tribute to the friends and well wishers who extended exemplary support to the Institute's growth and development. Many are still with us, but many have left us. I would like to pay my tributes:

- Shri S.K. Dey
- Shri Inder Mohan
- Prof.Aloo Dastur
- Mr. Nirmal Mukarji
- Mr. Ramakrishna Hegde
- Prof. Sarvepally Gopal
- Shri L.C. Jain.
- Prof. D.T. Lakdawala
- Prof. Surindar S. Suri
- Mr. Vijay Tendulkar
- Mr. Abdul Nazir Sab
- Mr. Biju Patnaik
- Prof. Malcolm S. Adiseshiah

Our special thanks to all those working with us here in Delhi, our branch offices in India and partner organizations and institutions worldwide. We are determined to go ahead, overcome the challenges to accomplish our mission and vision.

We rededicate ourselves to research, study and action on critical issues affecting the lives of the people and to take forward the Institute as centre of excellence.

Silver Jubilee Celebrations: Closing Ceremony Address
"Fifty Years of Development Thinking"

by Lord Meghnad Desai

When I remember how the Institute of Social Sciences began in the mid 80's, I thought of the famous Eleven Theses on Feuerbach: philosophers have hitherto only interpreted the world in various ways, the task, however, is how to change it. Of course the man who wrote it, the only way he could change the world was by writing another interpretation of the world. And the world must never neglect ideas. Ideas are very powerful instruments to change the world. What I'm going to do is I'm just going to tell you my life story.

In 1958 I began to study development when I started doing my MA. And of course Professor D.T. Lakdawala was one of my teachers and I always associate the Institute with

Lord Meghnad Desai, Professor Emeritus, London School of Economics delivering the lecture on "Fifty Years of Development Thinking" at the closing ceremony of the Silver Jubilee Celebrations of the Institute the name of Dr. Lakdawala who was its first chairman. I'm just going to take you very rapidly through the way our whole thinking on development has changed in these last 50 years. In a broad way, it has gone from thinking about *things* to thinking about *people*. One very core idea of development is a very simple one: it says people are poor; they are really meant to be rich, or people are poor today but they were rich in a previous era or some golden age because there was large surplus which somebody has robbed them of. Now, in a sense, development is a creature of colonialism and independence from colonialism. Because the people who thought about development articulately were not so much the classical economists who were thinking about growth in a different way in the eighteenth, nineteenth centuries but people who are, as it were, living with a contrast between the poor countries and their rich masters. So one of the first ideas,(in fact lots of ideas or a clutch of ideas) is the very basic idea that people are poor because there is a pot of gold sitting somewhere and if you only get that pot of gold and distribute it, everybody would be rich. I think it's a wrong idea but a very powerful idea and that is where the idea of 'drain' comes from. One of the first ideas of development that Dadabhai Naoroji developed was the idea of drain; there is a drain of surplus from India and because of that drain [taking wealth or resources] away it's not helping in development. Of course there were lots of drains going on even within India. I probably think that the Maharajas were draining away more surplus than the British were. Anyway there is an idea that people are poor because some people are rich and the only way for the poor people to become better off is to take surplus from the rich people. That idea I think will never ever leave us because emotionally it is a very powerful idea. Bangladesh was set up on the proposition that East Pakistan was poor because West Pakistan was robbing it and if East Pakistan would get rid of West Pakistan, Bangladesh would become Sonar Bangla. But it doesn't happen that quickly, it takes a few decades before you can realize that growth comes by raising productivity of the present generation of workers and not by living off past accumulations.

I'm going to tell you why this powerful idea is not a right idea. It is very popular in Africa, that Africa has been robbed and plundered. Let me go back roughly to round about the Second World War, longer than fifty years ago. There was, after the Great Depression, a real pressure on colonial powers to do something about their people, the people they were ruling over. They were really frightened. The Soviet Union had happened; they were worried about rebellion and revolution. Radicalism was in the air. A number of colonial powers adopted ameliorative policies. Now they have been completely forgotten but the first thinking on development was done by colonial officers. Furnivall who was an officer in Burma wrote a book on plural societies and Birken in Indonesia called the Dutch/ Netherlands East Indies, first argued that there is a dualism among the poor countries. There are some urban, westernized, organized centres and there is also a large rural impoverished society. The idea was basically that poor countries were fragmented and rich countries were integrated.

Then there was an idea, which again became unfashionable because it came from colonial powers, that basically people were poor because their culture encourages laziness. Very, very strong idea, and to put it in a more sophisticated way, it says the supply curve of labour in poor countries is backward sloping; if you pay these guys two square meals a day, they will stop working. When a certain break happened in the Second World War and independence came, surprisingly the thinking in development was very much generated by western economists. By 'western' I don't mean just capitalist western but communist western as well because they both were western thoughts. One was of course influenced by Keynes. Keynesian economics had triumphed and people thought that Keynesian economics could be used to solve the world's problems. In Keynesian economics the idea of growth had not at all been part of economics; it was only in the post war period that growth became a subject of academic study. Roy Harrod, who was a student and biographer of Keynes, gave lectures in the London School of Economics(LSE) in 1949 titled 'Towards a Dynamic Economics' in which he put forward the first growth theory. His theory in that respect was extremely mechanical and very macroeconomic. It says, what is the percentage savings rate of a country? Look at what is the capital output ratio and divide the savings rate with the capital output ratio and that will give you the rate of growth of the economy. That is one formula, you can write it in various ways. In a sense there is absolutely no behaviour there, the idea is that there is a constant savings rate and there is technological capital output ratio and, Voila! You divide one by the other and you get the growth rate. If you go back and read the draft frame of India's First Five Year Plan, which actually is the first official development document written down in the world, it is very much imbued by that spirit.

The story goes that K.N.Raj, fresh from the London School of Economics, went to work for the Planning Commission. Of course the ambition of the Planning Commission was very great; the National Planning Committee had been established by Subhash Chandra Bose and Nehru was the chairman of that and it had decided that in the first decade after independence they wanted to increase income or wealth by six times - just in one decade. Then they themselves realised it to be a little bit ambitious, they decided, maybe two to three times will do. Even to double income in a decade requires a seven per cent growth rate per annum. K.N.Raj had to hesitantly tell the Prime Minister that even five percent would be rather hard to achieve and perhaps they should plan for a slightly lower growth rate. Prime Minister Nehru got very angry and said, "Young man, why are you so pessimistic? You've been imbued by western economic thinking, you don't realize that people have great possibilities", and all that. Luckily, Nehru was not Mao Tse Tung. Mao Tse Tung was seriously mad and wrecked the Chinese economy spectacularly in trying to surpass Britain in one decade. It caused a huge famine in which 30 to 40 million people died. Nehru afterwards calmed down and decided that the young man's words may have some truth in the matter and the growth rate was going to be much less. But in a way what the First Five Year Plan was in India was a collection of the late colonial projects and schemes which had not yet been finished, plus a bit of Keynesian economics. It was drafted by the brother of C. D. Deshmukh, I'm told. He may have be an ICS officer, I don't remember. It is a very coherent document.

In any book on development thinking that anybody wants to write, India itself will play a part, both as an exemplar and as a contributor of ideas. India became a laboratory of development thinking both by Indians and by non- Indians. Anyway, it began to be really clear to the people that the capital output ratio was a given technological constant and that that. Another version of this idea was developed in the Second Five Year Plan, and that was the Mahalanobis model. Mahalanobis on his own, without reading any economics, discovered a planning model which was written for the Soviet Union. It is a two or four sector growth model with capital output ratios and all that. Then it became possible to describe the economy in certain input output tables. Input output tables got larger and larger. It is very interesting that everybody thought that economy is something like a machine which could be described fully by a set of numbers or a set of formulae. And to get growth you just have to get those number right. It was thought to be very left wing to believe in input output analysis and very right wing (when I was young) to believe that Indian agriculture needed more resources. It was thought to be seriously right wing to say that in the Third Five Year Plan the allocation for agriculture should be higher than in the Second Five Year Plan. One was thought to be an American agent if you said that. Anyway, slowly it began to be clear that development is a slightly more complex idea. At least a multi-sectoral approach was needed. In India a notion of surplus labour was developed and the idea that surplus labour was a resource, it was a kind of hidden savings in the economy. If you could only mobilise surplus labour and put it to work then growth will occur. But surplus labour was out there in the villages and growth was happening in the cities through industries because industries were always in the cities and people were always in the countryside. So how do you move people from the countryside to the cities and how did you feed them and so on? W. Arthur Lewis, the first non-white professors of economics in UK and later on a Nobel prize winner had this article in 1954 'Economic development with unlimited supplies of labour' which became a classic. The idea was we have these people sitting in the countryside, eating but not producing anything matching how much they eat because they are surplus. So you take them, you transfer them somehow to the cities and they will get into factories, but they had to carry the lunch pack with them,i.e. the food they were eating had to follow them. Of course the problem was, once they have left, the people remaining would have more food to eat. Would they actually increase the consumption or could you tax them to keep their consumption constant? There were lots of debates about that.

One of the most interesting ideas which was never adopted very sadly, as an alternative to the Mahalanobis Plan, was by my own teacher Brahmanand, that basically development should proceed first with producing consumption goods and consumption goods will then generate labour mobilisation and that labour mobilisation will lead to production of other consumption goods and so on. But that was thought to be too right wing; the Left idea was first produce machines to produce machines to produce machines. Anyway, this whole body of ideas - and I'm sticking mainly to the Indian experience - was unfortunately rewarded with early success. I'm saying 'unfortunately' because the real difficulty with development in India did not get clear till the second decade or 1960s. The First Five Year Plan was marvellous, eighteen per cent growth rate over five years, sort of three and a half percent on an average. Second was even better, twenty three per cent growth rate over five years and so between three and half percent to four percent growth rate for ten years and India had not had a growth rate like that for at least for a century. So everybody was happy. Then the difficulty started mounting up because by and large what was happening was that dormant resources were being better utilised to begin with.

The Second Five Year Plan ran into a resource crunch. Foreign exchange ran out but still it went through all right. The second decade was characterised by the three two's: death of two prime ministers, two wars and two famines. Resource shortage really became a very serious problem and then it became obvious to people that putting resources into agriculture was not just a matter of transferring surplus. Real people actually live there and they actually had to think about development in terms of different sections of people living in in different regions. Even so, the idea was very much on the production side, how did you raise agricultural production. There was a great belief in state farms, collective farms and all that. If you ever want to read books on agriculture written by people who have never seen a plough read Lenin on agriculture. Lenin had never ever seen a plough. It's a brilliant book but nothing whatsoever to do with agriculture. Kautsky had written a book on agriculture as well and he had this mad idea that there are only two ways of developing agriculture, one was the American way and the other the English way. It was mind boggling but people took that sort of stuff seriously. So the idea was that only large farms were productive and for that therefore land had to be pooled. Panditji believed very much in cooperative land pooling because the land holdings had become very small and the fragments had to be pooled. That idea was put to rest by the Research Programmes Committee of the Planning Commission producing a report in the mid 1950s with one of the most powerful empirical results there has been that show that small farms were more productive than large farms. The agony of the left was spewed across the pages of the Economic and later the Economic and Political Weekly for the next fifteen years. Lots of people were more or less saying this cannot be true because theory tells me it cannot be true, there must be some empirical trap here because large farms must be more productive than small farms. Anyways it went on and on but the empirical result was robust.

So the idea of the Green Revolution and all that starts from there. Don't worry about land pooling ; find out where farms are more productive and give those farmers more money. Put more resources into agriculture and that will increase the food surplus. So development theory begins to ask questions about how do people invest, where does investment have real results and so on. Of course in Indian development thinking, not now but so much in those day was influenced by the Soviet Union which was very powerful. It was argued by the Left based on Russian history that if you are only going to regions where agriculture is successful and giving more money to them then you are doing what Stolypin did under the Czar's regime(I'm not going to tell you who Stolypin is , find out, you can Google) . All this *a priori* thinking was thought to be contributing to development, but luckily for India, what happened was the discovery of high yielding seed varieties; technology plus the political compulsions of doing something about a failed agricultural policy compelled C. Subramaniam and other people to see that you had to make India self-sufficient in food. At that time India was relying on PL-480 shipments from America and it was pretty humiliating. But what nobody said at that time was that the Green Revolution was the *largest private sector success story* in India. Because the participants were all small self-employed firms. They were called farmers, they were small firms and they were self-employed and they were reacting to incentives which had been created through either input price subsidization or output price subsidization. The most remarkable story of that is that lessons learned in agriculture were not transferred to industry because people actually do not think of agriculture as an industry. Agriculture in the 1950s was not considered to be productive at all. It was supposed to be suffering from the surplus labour . Some argued that agriculture was productive but the zamindars were taking away all the surplus. Abolish zamindari and it will be all right. We abolished zamindari but productivity was still not very high. Productivity had to be raised. Now, the idea that productivity had to be raised began to then engage itself with behaviour. How do you raise productivity? You have to give people incentives and how do you give incentives ? There began to be an exploration away from formulae and input output tables to looking at where are the sectors of low productivity and high productivity. How could you get the high productivity people to give even higher productivity and then worry about the low productivity people etc.

Yet, not only in India but across the so-called developing world the first few decades of development [after independence] were actually better than before but they were not actually a success. This is when the world became aware that there is something called ‘Poverty’. That poverty is actually a problem of development. It’s quiet astonishing, if my memory serves me correctly, that the first and the second Five Year Plans do not mention ‘poverty eradication’ as a goal. Poverty reduction was not formally a goal in either the first or the second or the third Five Year Plan. Because the idea of development was to build the nation and at least in India Nehru had said explicitly to Marie Seaton that he wanted this big public sector investment to make India militarily strong. He wanted to have arms production all domestic and not foreign. That’s why he was having this Mahalanobis Plan. Of course building up military strength is a perfectly legitimate objective of national policy. I’m not objecting he shouldn’t have done that, what I’m saying is that the idea that poverty had to be reduced doesn’t actually figure in a lot of the literature on development till the late 1960s and early 70s. By which time the developed countries had started talking about poverty. Poverty in America, poverty in Britian, became the subject of books in the 1960s. In 1970s when McNamara became president of the World Bank – (he was absolutely a hateful creature because of Vietnam) but he was the first president of World Bank who said the objective of the Bank was to do something about reduction of poverty. And it is quite interesting how the whole development thinking shifts all sorts of gears after that.

The Seventies onwards you begin to have the idea that the central problem is not about growth rate as such but about reducing poverty. If you can show that high growth rate is related to abolishing poverty that’s fine. What it also did was that it removed the illusion that somehow poverty would be reduced by pure redistribution. Developed countries’ experience of poverty showed that despite continuously high growth rate because of Keynesian policies, a welfare state and a progressive taxation policy, poverty persisted in rich countries. Of course poverty was ubiquitous in poor countries. What could you do to reduce poverty?

Then began this very interesting deflation of hopes, which was really very healthy. The idea was that poverty elimination was actually a very difficult task. Poverty levels were measured in terms of a certain number of calories per day per person and you convert these calories into money expenditure,- and you are familiar with this - into 32 rupees per day. The amount of calories required to sustain a person was measured only for the prison population. Just like Dadabhai Naoroji said in 'Poverty and Un-British Rule in India' that people have inadequate housing standards and adequate housing standards are defined by how much a prisoner is to be allocated in a British jail in India. President Roosevelt decided that whatever the calories were required for prisoners Americans have to have five hundred more. So the calories required to sustain a poor person were decided by Roosevelt arbitrarily by adding five hundred to the calories required by prisoners.

Even by that crude measure elimination of poverty any time soon became starkly unrealizable and so we developed the idea of 'Basic Needs'. That development planning had to do something about basic needs. People have big quarrels about what they were, how basic were the basic needs. What is happening here across the way is that from things oriented thinking it becomes a people oriented thinking. People are still an abstraction because people are thought of in the large. They are thought of in terms of consumption levels.

A very big change occurs during 1970s because, say from 1945-75, the story was that if poor countries don't have enough resources they needed foreign aid. This foreign aid was all part of the cold war strategy. It had to be government to government, there is no other way to get in any capital. You had to calculate how much foreign aid was needed and so on. The oil crisis by which oil prices quadrupled completely changed the situation whereby five per cent of GDP of the developed countries was transferred to oil exporting countries. And those oil exporting countries were sparsely populated, most of them didn't know what to do with the money so they left them in the banks of some western countries. And western countries banks decided the only way they could pay any interest on its deposits is by lending it out and the most wild lending of money to developing countries followed in the 1970s. The whole situation completely changes the ideas about capital availabilityand it is very interesting that you had in banks had loan desks in which people were told just make loans as large as possible and just get rid of this money! There was amazing inflation, negative interest rates and developing countries were getting money like there was no tomorrow. All sorts of completely unviable public sector industries were started because government has the money and they have to do something about it. And then the whole thing crashed when monetarism cameand interest rates went up everybody was left with debt. One thing became clear, that there was a possibility of moving money from one side of the world to another side of the world through kind of private sector operations. This was still private loans to public governments. Then of course the debt crisis happens, especially in the developing countries , raising the question, is development just a problem of resources in some kind of abstract way- money, finance, debt and interest etc.. But the importance of international linkages was established.

Another very important event happened due to the oil crisis, so the oil crisis of 1973 is a very crucial event for development thinking and development facts.In causing the Oil crisis of 1973, the immediate event was the Arab-Israeli war . But by then the developed countries had had nearly two decades of full employment and in those countries especially the European countries and also in America powerful trade unions had emerged and basically the real wages of industrial workers was going up year on year and of course government was guaranteeing full employment but limits had been reached. What was inflation was really a hidden war between the workers and their employers in terms of the fight over income shares. As workers' share got larger and larger and as employer's share got smaller and smaller, profit rates begin to suffer, a classic Marxian kind of cycle. The pressure on profitability became inflation, because employers want to sack workers and of course because full employment was to be maintained government had to spend money to hire them but not by setting up industry somewhere else. It was at that time in early 70s that western capitalists decided that they will quit the shores of North East America or western Europe and travel eastwards. So the whole phenomenon of newly industrialized countries of Asia, the Asian Tigers and next batch of Asian Tigers arises because it is classic Marx and Engels Communist Manifesto prediction – capital has no nation, no morality, and so forth.

Western countries led by USA and UK decided to relax the rules about capital mobility. They went deregulation and more free market policies. Capital left western countries and went to China, Indonesia, Malaysia, Taiwan, wherever it was more profitable to go. So you begin to redraw the geography of where the manufacturing is. In the 60s and 70s everybody thought the North is not going to be very helpful and monopoly capitslimwould obstruct the development of the Third World.This was the argument of Paul Baran in his book The Political Economy of Growth. South - South cooperation is what people hoped will solve the problems. In 1968 in a Santiago conference of UNIDO, it was thought that if twenty five per cent share of world manufacturing trade could be from southern countries that could be a great objective in twenty years time. Nowadays nobody would take it seriously. Nowadays you would say if twenty five percent is exported by developed countries they would be lucky and that has happened because of a combination of factors and that again changed the thinking in development. In the 50s or 60s big countries like Mexico, Brazil, India had distrusted foreign trade. They wanted tariffs, protection, import substitution industrialisation and all that. Because of experience of colonialism, foreign capital was distrusted as much as foreign trade . Latin Americans also had their own sort of compulsions. There was a very influential thesis advanced by Raul Prebisch, a great Latin American economist and Hans Singer, a British economist which argued that terms of trade of primary products producers have a secular decline and therefore if you are in primary producing things, you will never have enough money to be able to buy industrial goods, you will have to manufacture them at home. That whole strategy collapsed with emergence of South Korea and Taiwan and Hong Kong and so on. Because they had a very different strategy, they had suddenly grown by relying on export markets. They got the money and they exported manufactures aggressively . They didn't have sufficiently large domestic markets. What domestic market could Taiwan have? Suddenly development thinking begins to change ; that the way out of poverty lies in getting capital from abroad, using your domestic labour in manufacturing sectors with fairly conventional technologies where there is not very much learning to do, there is no R&D required and you take cost advantage of cheap labour and go for it. Suddenly what you have is developing countries become interested in reform of the GATT(General Agreement on Trade and Tariffs) and they want greater access to developed country markets, *they* want free trade. You know the Uruguay round of GATT changed the equation because for a long time developing countries were saying developed countries we want to have nothing to do with your free trade, you go and cut tariffs if you want. In the Kennedy Round, Tokyo Round, we just want protection. Suddenly the whole dynamic changes and you have a group of emerging Asian countries which are fast growing. It was not either a state versus market question . The state was as important in Korea as it was in India or Mexico but the state was smarter in Korea than it was in India or Mexico. The state said we will give you subsidy, we will give you money but you've got to prove yourself efficient if we give you subsidy. And how do you prove your efficiency? Well, you get someone else to buy your products other than your own domestic consumers. That proves your efficiency, if a foreigner buys your goods. You can always appeal to patriotism and sell domestic consumers dubious products but will a foreigner buy it? That is a real test of efficiency and that's what the Koreans and Taiwanese were doing.

By the time the end of the 70s comes the whole context of development thinking is very different. Suddenly possibilities open up. So-called developing country can do anything. I remember that when South Korea start having double digit growth rates people were suspicious; most people of a progressive tendency distrusted South Korea because it was part of the cold war American empire . Of course the progressive people were Mexican, Brazilian and so on. First the Progressive people couldn't believe the numbers, they said they are cheating. And then China changed and that was the most significant event in development thinking. My own private theory is that Deng Xiaoping, when he finally got his chance, looked at Taiwan and more or less said this cannot be happening in my lifetime. These guys were failures, they ran away, renegades, terrible people. They were supposed to kind of collapse and come back to us on bended knees and how come Taiwan is one of the fastest growing countries in the world? And not being stupid he actually jettisoned all his life's thinking and decided what I have been taught is wrong and what my enemies have been telling me is right and therefore I switch. One of the greatest examples of creative thinking in the world's history, quite astonishing. Why should a veteran Marxist, hardliner, been on the long march and gone through several purges, in his blue overalls, suddenly cut loose? That is what I think created a whole new firmament. At the same time, in developed countries macro economics Keynesianism was losing out, monetarism was rising. Keynesian economics lost all reputation because it had no cure for inflation and income policy did not work. I can't even began to tell you how hard it was for us Keynesians in the West.

Next assault was the shift to free market thinking in the west, ideas of incentives and so on. In a sense what was happening in Korea and Taiwan was not actually a free market economy working but a different model of development was working which was more reliant on consumer goodsmarkets in developed countries. Not that they believed in free markets, they believed in regulated market with government intervention but the success was selling in a market private consumer goods, cars or whatever. Development thinking at that stage was also beginning to move towards the idea that maybe development strategy was about how to do things by getting inputs from anywhere. The Japanese were actually very successful in this, they were the first people to prove that the kind of input output thinking that was there until then was no longer necessary.Thus if you want a steel mill, it was thought that it is not very good to just have your own steel mill but youhave to have your own iron ore and your own coal and have integrated large scale industry. US Steel is one of those examples. The Japanese had no coal or iron ore and they made a successful steel industry by basically getting things from elsewhere. It is called just-in-time inventory. Certainly it had become possible because technology had advanced through container shipping and communication satellites, computer aided design and management. Same thing about Asian countries. Asian countries decided they could borrow capital, they have the labour and off they went and so national self sufficiency oriented idea of development also lost out. When the Chinese started importing foreign capital, who could defend national self sufficiency?

The other aspect of what was happening is that the aftermath of debt crisis in Latin America was very hard, with the IMF is battening down on them saying , you can't do this, you can't do that, adopt free markets. The fact that these nations were indebted compelled them to really adapt themselves to a very harsh fiscal policy and they were looking for how to think about development in a different way. And this is where human development idea came from. I was part of the team, along with two of the speakers in this Institute of Social Sciences, Amartya Sen and Mahbub ul Haq. That's how the whole idea of human development was born. That you should forget about growth rate, forget about capital output ratio, forget about input output tables, development is not any of that. It has got to do with life expectancy, health, education and later on what Amartya said, with human capabilities. Poverty not in terms of calories, poverty in terms of capabilities. What should people be expected to be able to do and why don't they have resources to do it and how can you organise so that they do? So it is partly through the adversity of Latin American countries and partly through the adversity of developed countries when capital was leaving them, that thinking in development changes. And the human development story has now become so routine in India that every state and every district and maybe every *mohalla* has its own human development index . Yet the interesting thing is that it shifts the focus of development from nation state and macro to the quality of people's lives. What was interesting in the Indian case was that through the halcyon days of socialist pattern of society nobody talked about primary education or literacy at all. Steel production was the most important thing to do. Steel production, heavy machinery, heavy electricals, all sort of things, but not a single person talked about health or primary education or the gender issue. All those issues suddenly became alive in the 1990s . It was all about governance and accountability and transparency, life expectancy, morbidity, maternal mortality rate, infant mortality rate. I mean they were always there but you go back to the first second, third and fourth Five Year Plans, there is absolutely no mention of these. Somehow, through various actions and of course some brilliant thinking it finally comes to the idea that development has really got to do with quality of people's life and basically of the Bahujan Samaj, the majority of the people. That is what has got to be looked at. And very surprisingly the first person to talk about 'aam aadmi' in Lok Sabha was Lal Bahadur Shastri. In a brilliant speech; he says what I see are all these plans and models. Are we actually improving the lives of the ordinary people who live in a small room in an urban area or of the peasants? Well, he was not there for a very long time and we had to wait another thirty years before this aam aadmi again emerges on the scene.

The interesting thing is that the way thinking about development changes is partly through the role of the material forces, changes in the outside world like the developed economies lost their industries and had to find some other solutions. Developing countries got into debt. Some of them used the state action imaginatively to get into exports oriented markets and you know India was one of the last countries to change in that respect.But it also changes due to new ideas such as human development or capabilities It is now almost accepted universally that the measure of development in a country is the quality of life of its people. The disagreement is or the alternative vision is what will bring about that outcome.

Is there a conflict between growth and developmebt which is a hot topic nowadays ? I would argue not; have liberal economic reforms, high growth rate and then you can manage redistribution if you have revenues to redistribute. You can't have static economy and then insist on redistribution; that kind of redistribution never happens. We have a very peculiar notion in our mind of the economy being like a harvest - you harvest, then you thresh out the grain, then you divide the grain between different people's shares. That is not the way an econoy functions; output is produced and distributed simultaneously. Then you have to tax people to raise surplus and then you have all these incentive problems. Even in developed countries with progressive taxation they have managed redistribution more by tilting the public spending towards the poorer classes than progressive taxation. So it is a combination of taxation and spending with spending having more importance. One of the disagreements is how much you need to sustain high growth rate. Secondly, to sustain high growth rate how much should the state take away. For example, I believe that high deficits are not a good thing, taking away money from the people for irresponsible fiscal policy is self defeating. There are differences on how much foreign capital is required and so on. But there is no doubt that at the end of fifty years of development thinking, we are absolutely sure that there is no other measure of development except the people whose development you are pursuing. And for those people there are issues like gender which would now be unthinkable of obliterating from development indices. I recall that gender has become a big issue of development in 1995 when there was a UN conference on gender. I remember sitting in New York, myself, Amartya Sen, Mahbub ul Haq and various other people and inventing the gender equality measure and then all the human development measures were filtered through a gender perspective. That kind of change has come about through a variety of experiences. We will probably get more nuanced, more focused on diverse individual experiences and then ask ourselves, okay, even human development index is not good enough because it is too general, can we calibrate it more, for example, to take care of disability or take account of old age, because old age is very important. Can we do something to specifically measure how well a society is doing by way of the disabled or by the elderly and things like that. There cannot be a single poverty measure, it is silly to have a single poverty measure. Not every person needs the same number of calories. Again and again development thinking becomes much more oriented towards outcomes. Outcomes are measured basically through quality of people's lives. In the next fifty years, which some of you will have to suffer, I think development thinking will get better.

Thank you.

Lord Meghnad Desai releasing the Souvenir of Institute of Social Sciences
at the Closing Ceremony of Silver Jubilee Celebrations