The Sen-Bhagwati "Debate" on Economic Policy in India

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Several things are quite remarkable about the recent debate between Professor Amartya Sen and Professor Jagdish Bhagwati. The first surprise is that such a debate could become a major news item at all, making headlines and filling screen time on news channels, when it is about economic strategies that are normally discussed only in relatively small academic and policy circles. In this case, the media has tended to make it into a gladiator fight between two celebrity economists, and in the process reduced both arguments to relatively simplistic positions. The second surprise is the low level of the attacks on Professor Sen. This has not been a "debate" as such so much as a one-sided attack from what could be called the Bhagwati "camp", as it were, while Professor Sen has maintained his dignity and avoided the personal in the discussions. It is not just the sad sight of someone of the stature and seniority of Professor Bhagwati stooping to such aggressive, bilious and even undignified attacks on his sometime colleague. Partly as a result of that, all sorts of people, including economically illiterate journalists and politicians who are nonetheless used to propounding on the economy, feel that they can now take potshots at the Nobel laureate for their consequent two seconds of fame. These critiques have ranged from personally vicious to arguments that verge on the macabre.

The third surprise is how the debate has been reduced to a simplistic and even banal set of alternatives, between so-called "economic growth" on the one hand and social spending on health, nutrition and education on the other. Obviously, it cannot be and is not either gentleman's case that only one of these matters, so it is trivial to reduce the discussion to this. It is true that Professor Sen is much more concerned about the distribution of that growth and particularly how it affects the material and social conditions of the majority of the population rather than a favoured few. And he is therefore completely correct to point out that the past three decades of relatively high growth have short-changed a significant bulk of the Indian population, because of insufficient provision of basic infrastructure like electricity to every household and all weather roads to every village; complete mismanagement of the food system so that food insecurity and undernutrition remain rampant; and very inadequate public spending on health and education. The critical point that really matters, but has been excluded in a lot of the media coverage, is how exactly that growth is to be achieved and what the pattern of that growth should be. This is where much of the current discussion seems to miss the point. The Bhagwati model is one of continued and sustained "liberalisation" of the rules for large capital – and implicitly, continued subsidisation of its activities through the provision of cheap land, access to mineral resources and so on.

So "more reforms" – in the form of more concessions to large capital, more deregulation of markets and reduced protection for labour – are seen by Professor Bhagwati and his followers as the answer to the current slowdown as well as the recipe for future economic expansion. The three he has identified in particular are retail sector liberalisation, further trade liberalisation and labour market reforms, all of which are incidentally likely to be associated with worsening employment conditions and further reduced bargaining power for workers.

But it really should be evident now that this particular economic model has run its course, and is coming up against all kinds of constraints that are simultaneously economic, ecological and socio-political. Open trade and capital accounts have generated large (and ultimately unsustainable) current account deficits that are being financed for now by highly mobile movements of short-term capital. The lack of sufficient compensation and rehabilitation measures for those displaced by development projects and urbanisation is not only unjust, it has dented official credibility and created unrest. The privatisation and barefaced extraction of mineral, land and water resources that rightly belong to the people has led to over-exploitation and unsustainable patterns of use and given rise to a seemingly endless season of scams. The lack of good quality employment generation has meant that formal employment has barely increased through three decades of high growth, and is part of the reason why inequalities have increased so much. This is now emerging as a socio-political problem, of massive proportions. This is the macroeconomic context within which the issues that Professor Sen has highlighted must be viewed. The completely inadequate quantity and very uneven quality of public provision of nutrition, health and education services is obviously because of inadequate public spending even when aggregate incomes were growing rapidly. But the question must be asked, why was such public spending still relatively low despite the scale of the problem? Lack of sufficient political will is one obvious answer, and it is one that Professor Sen is right to stress, so as to demand change in this area. But this is not the only reason. A more fundamental reason may lie in the very pattern of growth itself. The focus of the Indian state has been on generating growth through various incentives designed to encourage the expansion of private capital. It is now obvious that this can very quickly become prey to corruption, crony capitalism and the like. It also means that the state cannot tax either large capital or the richer groups in ways that can generate public resources for essential public spending. And this strategy in itself generates incentives for private players that effectively militate against a more broad-based and egalitarian economic expansion. Capitalist accumulation in India has been based essentially on extraction: of land and other natural resources, of the labour of workers, of the products of peasant cultivators and small producers of goods and services. This has reduced the incentives to focus on productivity growth and innovation as routes to more rapid growth, since state-aided primitive accumulation and socially determined extra-economic relationships provide easier and more reliable means of generating private surpluses. All this has actually been reinforced under globalisation, rather than being diminished by external competition.

But the limits of this approach are now clearly being reached. Domestic business has got used to an environment that delivers constantly increasing incentives, and has shown that it will simply vote with its feet – pack up and invest elsewhere – if more and more incentives are not provided. But providing these incentives has effectively bankrupted the state (tax concessions to corporations every year come to many multiples of all the spending on "flagship schemes" by the Finance Ministry's own reckoning) and rendered it less able either to provide more incentives or to undertake the necessary public investments on its own.

So simply relying on more of the same is not going to work, and clearly a new growth strategy that is more directly concerned with encouraging productive employment generation and better conditions of the bulk of the population is required. So it is not about "growth versus social sector spending" at all – it's about the growth strategy, stupid.

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