

# ISAS Brief

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## Indian Economy, Amartya Sen and Jagdish Bhagwati

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India's two most-celebrated economists – Nobel Laureate Amartya Sen, Professor of Economics and Philosophy at Harvard University, and Jagdish Bhagwati, Professor of Economics and Law at Columbia University – have been exchanging sharp notes and views on what ails the Indian economy and what should be its ideal recipe for success.

While Sen and Bhagwati have held markedly different positions for several years on the right economic model for India, the recent spat has assumed rather bitter proportions with the chattering classes and intelligentsia also getting horizontally split. What was initially being visualised as a cerebral duel between the two renowned and respected economists with India as the case in the point, and was being portrayed as the 21<sup>st</sup> century parallel of the celebrated 'confrontation' between John Maynard Keynes and Friedrich August von Hayek during the Great Depression in the 1930s, has begun raking up dirt through personal insinuations and political colouring.

Despite being liberal neo-classical economists, Sen and Bhagwati's views on economic growth and development have been poles apart. A strong supporter of the state playing a leading role in funding and providing public goods, Sen has persistently argued for augmenting capacities in primary education and healthcare. For him, these should be higher priorities than a pervasive focus on raising economic growth in a populous developing

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country like India, which is characterised by large gaps between growth and development outcomes. By no means, however, has Sen ever discarded economic growth. Rather, he has held the view that strong healthcare and education and greater public investment in public goods will only make growth more stable and durable. He cites China as a relevant example, while also pointing out the robust economic performance of the Indian state of Kerala in recent years, as an illustration of the strong causality between strides taken in human development and improvement in living standards.

Bhagwati, on the other hand, is unabashedly *laissez faire*. A staunch critic of a large role of the state in influencing economic transactions, he has vociferously argued for free and fair markets. Being a trade economist, as opposed to Sen's firm grounding in development economics, Bhagwati has been a champion of free trade and unregulated markets. He has been particularly worried over the current dip in India's economic growth and has expressed concern over India losing its international clout along with a decline in its rate of economic growth. Criticising India's restrictive and growth-retarding monetary policy, Bhagwati has been perturbed over the lack of economic reforms in recent years and its adverse impact on economic growth.

It is tempting to simplify the Sen-Bhagwati debate as the quintessential intellectual division in opinion over whether countries should pursue economic growth as the 'means to an end' or as 'an end' in itself. Such simplification is erroneous and uncalled for.

At an academic and intellectual level, the debate does have shades of the Keynes-Hayek contest. As great scholars and respected economists of modern times, their debate highlights the differences that exist between prominent thinkers on their visions of economic models and development strategies and the role of state and non-state actors.

It would have been fine had the implications of the debate remained confined to academics. Unfortunately, it has begun getting interpreted in a far more perverse sense. Sen's endorsement of the recently unveiled food security programme of the Government of India and various other initiatives such as the National Rural Employment Guarantee Act (NREGA) aimed at increasing social security and making growth more inclusive, has been taken as his tacit endorsement of the views and visions of the Congress-led UPA (United Progressive Alliance) Government. His reservations about Gujarat's performance on social development indicators and disapproval of the state's incumbent Chief Minister Narendra Modi's possible elevation as India's future Prime Minister have strengthened these impressions. There have been howls of protests over his remarks with one angry BJP (Bharatiya Janata Party) Member of Parliament going to the extent of demanding that Sen be stripped of 'Bharat Ratna' – the highest civilian award conferred by the Government of India on an individual. Ironically, Sen was awarded the *Bharat Ratna* in 1999, when the BJP-led NDA (National Democratic Alliance) Government was in power with Mr Atal Behari Vajpayee as the Prime Minister.

While those keen on sensationalising the debate are waiting to pitch Bhagwati as anti-Sen and therefore anti-Congress and pro-BJP, Bhagwati has not resorted to such posturing. Indeed, he

was one of the earliest to champion economic reforms in India and Dr Manmohan Singh's policies when, along another celebrated economist Professor T N Srinivasan, he wrote a paper published by the Ministry of Finance on the urgency and importance of India's economic reforms. He has made no bones about the long association that he has had with India's current Prime Minister.

The Sen-Bhagwati debate has also diverted some attention from one of the most significant statistics made available on the Indian economy in recent times: the sharp decline in poverty reported by the Planning Commission. According to the Commission, poverty has declined from 37.2 per cent in 2004-05 to 21.9 per cent in 2011-12.<sup>2</sup> The decline indicates an annual average reduction of more than two percentage points during the period mentioned.

While the reduction of poverty itself has received less attention, more discussed are the possible factors precipitating the decline. Those arguing in favour of economic growth and aligning with Bhagwati are explaining the decline as a result of the 'trickle down' effect produced by high growth. Those inclined otherwise are taking the 'Sen' line and pointing to the role of inclusive growth programmes undertaken by the UPA, particularly NREGA, as the major triggers for reducing poverty.

None of the views are entirely correct however. The first group will find it difficult to explain how 'trickle down' persisted despite the Indian economy dropping to a lower growth trajectory from 2008 onward. And the second group will find it hard to justify why – if NREGA and social inclusion programmes directed at the rural segments have indeed been the factors – urban poverty has declined almost as fast as rural poverty despite there not being NREGA-like programmes for the urban poor; and why rural poverty still remains much higher than urban poverty.

Moving beyond the rhetoric, it is perhaps wiser to accept that Sen and Bhagwati represent two major strands of thought in the contemporary development discourse on the Indian economy: the more inclusive, greater state-driven, rights-based approach as opposed to the liberal deregulated market-oriented approach. The two are unlikely to converge. Rather than making the two great scholars look like arch enemies going for each other's throats, it is better to accept that both espouse the same 'end': a healthy and prosperous Indian economy, albeit through different means.

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<sup>2</sup> Press Note on Poverty Estimates, Planning Commission, Government of India, July 2013; [http://planningcommission.nic.in/news/pre\\_pov2307.pdf](http://planningcommission.nic.in/news/pre_pov2307.pdf) (Accessed on 25 July 2013)