

MOVING BEYOND 'ISM'S TO RECONCILE WITH LARGER OBJECTIVES

Dr.Shubhada Sabade

Professor, SIMS

Author is Faculty of Economics, Symbiosis Institute of Management Studies, SIU, Pune. Head, SIMS Economics Think Tank and regular Columnist in the Financial Express

The debate about whether or not US-educated and IMF-experienced people should occupy highest positions in India's economic policy-making is unfortunately being pushed into the outdated socialism-versus-capitalism rhetoric.

Those who criticize RBI's monetary tightening to combat inflation through last couple of years have been pointing out that inflation which arose from supply-side constraints due to bad monsoons and policy paralysis (partially thanks to Babus' fear of TRI misuse), could not be reduced by raising repo rates and CRR, which on the contrary would have, and did have adverse effect on investment cycle, employment and growth. In advanced countries including USA, inflation is a monetary phenomenon going by the quantity theory of money ($MV = PT$) and hence can be influenced directly by monetary action. (Refer to research paper 'Is money supply the cause of inflation in India?' by same author in Elsevier, Procedia) The argument that $MV = PT$ doesn't always hold in India and hence after trying monetary measures several times in a row, inflation targeting must be dumped in favor of other RBI objectives, was quickly type casted as 'socialist' and leftist ideology. That's an easy way out, but rather cynical and misdirected.

Self-proclaimed capitalists claim that despite a stint with IMF, chief economic adviser Arvind Subramanian, RBI governor Raghuram Rajan and Deputy Governor Urjit Patel are tailoring their opinion to suit India's domestic needs. The lead article in Economic Times of 22 Oct 2014, page 14 says that Subramanian, a champion of free trade is sympathetic to India's farm subsidies. Well, but isn't capitalist America, the biggest advocate of free trade, also the biggest subsidy granting nation? If Rajan predicted the 2008 sub-prime crisis and criticized unregulated financial market functioning, wasn't IMF too always trying to monitor and regulate the international financial system anyway, although did not have the 'teeth' for it? Can these be termed as strictly right-wing capitalists just because they hail from USA / IMF? Answer is 'no'.

In fact as the world has swayed between capitalism and communism over a century and after experiencing both extremes, is possibly settling at, or at least pausing somewhere mid-way, can ideologies remain pure or inclined left or right forever? For instance, the IMF conditions while bailing India out of the 1991 BoP crisis did India good by getting it out of the stagnancy, onto a high growth

trajectory later. The conditions were justified from a lender's angle who wanted to ensure borrower's repayment capacity. Just good banking, nothing is right about it, despite the American ideological influence. But if theories developed on the basis of experience and data from advanced capitalist nations don't always apply to developing nations, the critics of such theories need not be alleged as being leftists.

Let us all move beyond 'ism's. They will soon be outdated or already are. Free market forces do allocate resources efficiently but need to be punctuated by government regulations. The staunch capitalist USA has always had hugest subsidies and social welfare programs while bitter communist countries like USSR and China suffered highest inequalities and corruption. Subsequently, USSR broke down; China skyrocketed through capitalist pockets and America embraced strict financial sector regulation post-2008. Any radical right-wing economist of today would also want poverty to be alienated and every socialist will advocate industrialization and modernization. Everyone concerned about mass poverty and deprivation need not be a socialist and anyone seeking pro-industry policies need not be a capitalist. Indeed, mass-upliftment and industrialization are two wheels of the same cart of development.

C K Pralhad's creation of profits at the bottom of the pyramid is a classic case in point. As nations converge to painstakingly discover new economic systems that blend free market with minimal government supervision and regulation together with welfare leading to economic 'inclusion', let us not regress by polarizing ideas, thoughts and criticisms towards any 'ism's.

Needless to say, we don't mind US/IMF trained people here, but we want them to realize that all western theories are not applicable in all Indian situations all the time. Blind loyalty to western theories would prove counter-productive. So they must gracefully consider retreat when certain actions have gone wrong again and again. With their undoubtedly highest academic credentials, they must in fact develop new relevant theories for India drawing from the Indian economic history. For instance, the recession of late 1990s in India which was caused by monetary tightening and credit crunch, was revived not by monetary policy, but Vajpayee's 'Golden Quadrilateral'. This indicates that in India fiscal policy may be more important and monetary policy only supportive. Indeed, such comprehension will take us beyond 'ism's and liberate us from dogmas to get our nation on a steady inclusive growth path.