

The birth of Swaminomics

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Swaminomics is now 10 years old. When I started writing this column a decade ago, I was widely seen as a maverick taking pot shots at the conventional socialist wisdom of the day. Today I am astonished to find myself regarded as mainstream. How utterly improbable economic reforms seemed 10 years ago! *The Economist*, the London magazine, wrote a cover story in early 1991, calling India a caged tiger with no prospect of getting uncaged.

Many recent converts to reforms have been called opportunists, and I have often been congratulated on being consistently pro-reforms. In fact, I too was a socialist in my youth. Who wasn't? I cheered Indira Gandhi's *Garibi Hatao* policies, cheered every nationalisation. I actually believed that if only exports were canalised through the STC, they would take off. My generation grew up admiring the political class that had won us independence. We had more faith in the visible hand of the government than the invisible hand of the market postulated by Adam Smith. We seriously believed that if only the government was entrusted with sufficient power and money, it would take us to paradise. We believed that the state must keep taxing more in order to invest more, bringing more growth and prosperity.

I was as guilty of supporting the *neta-babu raj* as anyone else. My only defence is that I had the intellectual honesty to admit that I was wrong much earlier than others (at the end of the 1970s). This took some courage. I was promptly dubbed a running dog of capitalism, a stooge of imperialism, and much else. None of my critics believed my new stand, that economic liberalisation would help consumers rather than businessmen. None of them dreamed that I, supposedly a running dog of capitalism, would one day be denounced by the Bombay Club of industrialists.

On the 10th anniversary of Swaminomics, it is worth relating why I changed. This was due not to any single event, but growing disillusionment on several fronts. It gradually became clear to me that *Garibi Hatao* and nationalisation had not reduced poverty. Replacing what we regarded as greasy businessmen with politicians did not produce an honest or efficient economy, only greasy politicians. Despite ever-higher taxes and investment, GDP growth remained unchanged at 3.5 per cent per year, the Hindu rate of growth.

India remained poor. Meanwhile the East Asian countries were rapidly becoming richer than many European countries by taking a totally different economic route. Initially we ascribed this contemptuously to dollops of aid and MNC investment. Many of us thought that these countries were imperialist puppets who would meet a sorry end. Alas, the supposed puppets became rich beyond their wildest dreams, while our path of socialist self-sufficiency kept us poor.

One rather minor event helped me push me from mere disillusionment with socialism to active reformism. Although I earned a very modest salary as a special correspondent, I wanted to start a trust for helping the poor. If only enough of us did the same, I thought, we could raise enough to make a difference.

But how exactly should we help the poor? Just giving away money would be a bad strategy. It would be charity, not development. It would create dependency, not prosperity. No, I thought, a better approach would be to provide money to the poor which will help to buy an income-earning asset—maybe a small machine or repair workshop.

But, of course, money would not be enough. The poor would need training in skills too. Otherwise they would fail to compete and go bust. So, I would have to organise their

training too. How? Well, giving lectures or pamphlets would clearly not do. Skills had to be developed through learning by doing, by training on the job itself. So I faced a daunting task: I would need to create a large workplace with established skills, where poor newcomers could come to acquire skills through learning-by-doing.

It then suddenly hit me, like a bolt of lightning, that this would mean becoming a businessman myself. I would have to start an industry or transport business or whatever, and demonstrate that I had skills good enough to be worth passing on to others. This meant making profits in a competitive environment. Only then could I credibly claim to have skills worth imparting to a string of newcomers. The bigger my business became, the more newcomers I would lift up.

This was a traumatic discovery for me, a life-long socialist who had been brought up to look down on the business class. I had at college learned, but not been convinced by, Adam Smith's theory of an invisible hand that would lead the private interest of the businessman to promote the interest of society as a whole. No, I thought, we need enlightened individuals to find selfless ways of helping the poor.

But now my search for a sustainable way of helping the poor had led me right back to the business class I had long looked down on. I had not started with the reasoning of Adam

Smith's invisible hand. I had started on a different route, seeking to create a visible hand to assist the poor. Yet this journey led me to the same end-point as Adam Smith's discourse. I realised that old hate-objects like GD Birla had, by building large industrial empires, done far more to help far more poor people than any charitable trust I could create.

Of course, many caveats were in order. What we really needed were not fat-cat businessmen, but a competitive marketplace, that would force businessmen to be productive in order to survive. Nor did we need a government that did nothing. On the contrary, we needed an activist government with a different agenda, one that developed rural areas, strove for universal literacy. We needed a government that promoted democracy and civil rights. We needed democracy to provide competition and choice in the political marketplace, and liberalisation to provide competition and choice in the economic marketplace. The rationale for markets was exactly the same as the rationale for democracy. They had the same flaws and advantages. They went together.

Thus was born the fundamental philosophy of Swaminomics. It stands for empowering the consumer through choice in all markets—political, economic, social. It always will.

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