

**Twelfth CD Deshmukh Memorial Lecture  
by Prof. Jagdish Bhagwati, Columbia University  
on 12<sup>th</sup> December 2002**

**Lecture by Prof. Jagdish Bhagwati, Columbia University**

Governor Bimal Jalan and Friends,

Many thanks for your kind remarks, Bimal. Let me, at the outset, say how pleased I am I am sharing this platform with you this evening. You are India's most distinguished economists, that rare bureaucrat who also has combined an excellent policy sense and accomplishment with a publishing record that would put even a prolific academic scholar to shame you. You are not merely a prominent public policy maker but also an eminent scholar. The combination makes you entirely preeminent.

I am honoured to be giving this year's C.D. Deshmukh Memorial Lecture. It is a prestigious lecture, which has been given by many distinguished economists and central bankers. Besides, the lecture honours a truly great Indian, Sir Chintaman Deshmukh. His career was marked by considerable distinction, especially in a young nation's financial affairs. He was both the Governor of the Reserve Bank and also the Finance Minister. In honouring him today we salute one of India's finest sons.

But in my case, I must say that I am also delighted that I can join in paying a tribute to him because our path crossed almost forty years ago. Yes, I am that old! When he was Vice Chancellor of Delhi University, and I remember his many kindnesses, belying his rather forbidding exterior. Few know that he was the visionary Vice Chancellor, who brought together in the Delhi School of Economics a number of economists, most of them in their late twenties or early thirties, turning Delhi School within a very short time into what was then among the most notable institutions of

economics in Asia - indeed in the World. These economists included Amartya Sen who went on to win the Nobel Prize in Economics, Sukhamoy Chakravarty, who became a world class development economist only to die prematurely, myself, Tapan Roy Choudhury who became an eminent Professor in Indian history at Oxford, Padma Desai whom I later married, who is a leading scholar on Russia today and holds Columbia University's Hariman Chair on the subject. I could go on. There are several others.

But I still knew Dr. Deshmukh a little better than these other economists because I happened to join the Indian Statistical Institute as Professor of Economics when I first returned to India in 1961 and was loaned by him, he was the President of the Institute, but he was also a Member of the Indian Planning Commission, when I was loaned by the ISI to work on the developmental problems with the Perspective Planning Division and I happened to get to know C.D. Deshmukh quite well at that time. And I also happened to know his wife, Shrimati Durgabai Deshmukh, who was also a member of the Planning Commission at that time and she was a great social activist actually, having been a child widow and, you know, it is often thought today, particularly by young people who are not used to reading matters past beyond 10 years at least in economics, any more, they think that things like poverty and social objectives are all discovered - discovered not rediscovered only in the last ten years. They really wanted to go back and look at the First Five Year Plan and Second Five Year Plan - half of these documents are all about social issues and we had Mrs. Deshmukh Durgabai, who was a Member of the Planning Commission - the very First Planning Commission. That is where Mr. C.D. Deshmukh and she met and they married - probably the only union brought about by the Yojana Bhavan! And it was entirely without *Yojana* - without plan. It just happened. I got to

know the two of them. It was really a very intellectual person in C.D. Deshmukh - very cerebral in many ways, although he too was socially involved and here was a social activist of very considerable eminence and the Union of the Juries really would and what I thought I would really speak about because today I want to talk about globalisation issues because they really bring together both, the main question which really bothers a lot of people is the social consequences of economic globalisation and that is the perspective I want to discuss today. Because that would combine the memory of both Deshmukhs actually and not just C.D. Deshmukh, because he certainly was interested in international issues - he was a very eminent authority on the subject. He represented us abroad in several negotiations and she was a great social reformer within the country. So I think that those two perspectives are what really are very much present in the whole globalisation/ anti-globalisation debate and I will try and bring that perspective a little bit to the forefront when I discuss this.

But let me first say, at the outset, that the anti-globalisation sentiments appear to us to be far stronger than they actually are and there are two reasons for it. One is, of course, that one wing of these anti-globalisers takes to the streets. These are the people who demonstrate (if you like, ramp and raid), storm the bastilles attend every conceivable meeting. I think it is slowing down a bit and they are really brilliant guerrilla warfare people because all guerrillas used to strike when you least expect of them. These new guerrillas strike when you most expect them, mainly at the big meetings. Why do they go to the big meetings? Because thousands of reporters like at the Davos and the World Economic Forum, which I go to, sometimes, that is one meeting which is picketed all the time, and that is because these thousands of people assemble from the Press, Financial



Times, The Economist - every conceivable major newspaper and magazine. And usually nothing is going on at these meetings. They are mostly dull. And suddenly when you do something dramatic or melodramatic, and that catches, you have an immediate outlet every where - it is a brilliant strategy. It has worked. But it also creates the illusion that somehow these groups have much more saying than they actually do. It is just a way, to capture the P.R. machine. I would actually suggest that perhaps the huge procession of these conferences that has gone on around the world, even the World Trade Organisation (WTO) has one every two years - I am surprised it does not have every six months - I am sure it would be on the cards - except that it becomes more and more difficult to manage these things - and bureaucrats, politicians, everybody loves these big meetings and so do new guerrillas and I think if you want to transact any business you can do it on e-mail also and only when you have some real business to transact something to negotiate then you ought to have them - anyway, going back to the anti-globalisation, it is really a brilliant strategy and it really worked in putting it on the map.

Actually if you look at the poll, that has been undertaken recently, last year's Davos Meeting in New York - it could not be held at Davos because of the disturbance at the hotel in New York. After 9-11, New York was a much safer place if you went out campaigning, you were about to put away in detention because of the security concern. But anyway, at that time, 9-11 post Davos Meeting at New York, a poll was released of the 25,000 people that had been polled in 25 countries - 1,000 people in each country - but urban people like us - not in rural areas - and they were asked "what you think about globalisation" and what came out of it was that there was plurality in favour of globalisation in terms of what happened to themselves, what happened to their country,

etc., and that was quite surprising for people who had been completely shattered by the noise in the streets and that is really another interesting facet in developing countries, in our part of the world, pluralities in favour of globalisation when you are stronger now because lot of us are recoiling away from the anti-globalisation which is implicit in our policies. We were an inward looking autarky, the amount of foreign investment also was extremely limited, trade had gone down over decades and so on that attitude is what we are reacting to and moving away from and so that was being captured, the only place where you had less pluralities was the one which had been hit by the financial crises which is really what something Sir Chintaman would have been very interested in being into financial affairs. Where they had been hit by financial crises particularly through contagion from East Asia and within East Asia itself, Indonesia, Turkey, Russia, South American countries, which have got into trouble - there the pluralities were lower because they were associating globalisation with the financial crises. So that is the next point I want to make. That if you look at the reactions to globalisation - they are really reactions to - in many cases - to the financial crises. That the downside of financial crisis is and the reaction to imprudent, hasty liberalisation of capital flows is really what has imperiled the view of trade, multinationals, etc., etc. which are far more benign phenomena from the economic point of view.

As I often say, an analogy which is appropriate to financial capital flows is like that of fire. It helps you to cook your food and do variety of things but also burn your house down. And so you have to be extremely prudent and this is something the Latin Americans, in particular, have not done too well, including recently when they borrowed too much, spent too much, they were always living on the edge and unfortunately because

they were not able to stay within their means and right now Brazil - 15 per cent of their GNP is in the form of domestic saving but 5 per cent is externally borrowed. When you do that you are really asking for trouble when it really breaks out. And when trouble breaks out, it gets magnified right away. I think, we need to have prudence. That has, in turn, visited on a sense of imprudent and hasty liberalisation of capital flows, which is really one form of globalisation, we do have to be watchful. I often visited through the, what I call fallacy aggregation when you are looking at globalisation as one big blot of phenomenon - it is visited on things like trade, and on multinationals and so on and so forth which really does not make any sense. The appropriate analogy for trade of course is if I trade my tooth brush for your toothpaste and we both have some leftover then our teeth would be more whiter, the prospect of our teeth being knocked out in the process of this trade is extremely negligible. Of course, it can happen although it is very rare. So, the two analogies are completely different. So, I think, that what has become difficult or rather anti-globalisation has gathered a little bit of strength in South America like the election of the ruler, after Quadros, attempted to globalise and integrate with the world economy, all of those are reactions to mismanagement, too much borrowing and so on, things which we are not, fortunately, party to. We have been rather cautious and we have to thank Mr. Chairman for some of this.

Having said that therefore, we need not exaggerate on our fears of anti-globalisation. We can actually react to it. There is still substantial support for globalisation except in a few countries which have been hit by the financial crisis. There is no need to be complacent because there are real problems that we need to worry about



and that is what I want to come to now. There is a cause for exaggerated worry, there is still reason to worry, if you are really going to put the whole matter on an even keel.

Now what is it that ails anti-globalisers and that is the one I want to come to reasonable ones who are really thoughtful etc.

Now, let me first dismiss the economic debates. Because the economists always disagree, as you know - six economists and seven opinions! - as Keynes said. So, there are always going to be people who say in terms of economic effects of economic globalisation like trade, investment and so on. Economic effects lead to the incremental size of the pie of national income regardless of distribution but that is something where I think the majority of economists tend to agree - even though some disagree - about the beneficial effects of trade, of multinational investment, etc. The thinking has evolved such that a reasonable consensus has developed or may be if you are opposed to them, an unreasonable consensus has developed in favour of this view. There are debates like between Joe Stiglitz, as Mr. Chairman mentioned, who happens to be my colleague and myself and others, and we continue having debates and that is part of the economics profession. But that is not where the action is in my opinion, at all. This is something which is a perennial given evergreen arguing and it is something which interests economic students and so on. So it is of importance that national income matter is important and that it is where we reach a consensus. But where the anti-globalisers who are vast numbers of civil society groups like Human Rights Groups, Environmental Groups - all sorts of people - and there is huge multiplicity in these organisations now, there are about 2 millions NGOs in India and 100s multiplying, proliferating NGOs, which is an interesting international issue also, globalised NGOs and this is partly a result

of the outgrowth, in my opinion, of female education and rights because wherever I go and work with NGOs, they're always preponderance of women, I think women's education has led to interest in doing good rather than doing well. There is the central tendency and I think this is something which people like Tom Friedman forget because they think it is to do with Internet. Because on Internet you can transact bad things too. You know, it is used by mafia, it is used by terrorists, why is it used for globalisation purposes to advance social goals because there are people who are driving it and actually there is a joke about our sub-continent - I do not know if you have heard it - that how in the old days if you looked for a good wife, you looked to see whether she had a degree or played the sitar which was promptly discarded after marriage - and so on but today, the joke is that you have to give as a dowry or as a gift to the daughter-in-law if you want a good one, her own NGO. Right? So there is a sea change. And it has come, in my view, through education. Lots and lots of women being educated and wanting to play a role and it is multiplying. Now, what are these people worried about? That is really the issue which I want to discuss. They are not worried about the economic effects of economic globalisation in conventional sense of the size of the pie. They are interested in the social front consequences which is the omnibus that is really is the word I can describe. They are interested in a variety of issues like the effect of globalisation on gender equality, gender issues, interest in the effect of environment, then the interest in the effect on poverty of the poor countries and they usually say all these dimensions are getting worse because nobody is going to talk about them before. Then, it leads to a democratic defect. Somehow, the more interdependent you get, there becomes a mismatch, a disconnect between your degree of control and your degree of political dependence or rather



economic dependence. So the politics of democracy stops at the national forum, more or less that is the argument where as the economic interdependence is now worldwide. So there is not that same connectedness. There is a democratic deficit, the rich country people are also worried about the effect of competition from the poor countries on the effects of their skilled workers. So the argument is that trade with the poor countries will produce poor people in the rich countries and even their labour standards will collapse because they get raised to the bottom. Because if Mr. Gates abandons the Silicon Valley and come here, people will just threaten the workers with leaving if they ask for higher wages to maintain the standards, they say look, we are going off to Singapore where there are none. I mean, this is the kind of a mind-set that is raised to the bottom of standards. So it is not that they are worried about our standards, they are worried about their standards of being pulled down by our standards. So those kinds of issues which you could go down the list meaning trade and cultural globalisation - culture that is another argument - the mainstream culture like the French who drove away his tractor right into the McDonald's and razed (the shop) into the ground because he thought French agriculture and French culture were both being threatened by McDonald's and the Americans. Indigenous culture people are enjoined on to it and they say tribal welfare is going to be hurt by globalisation. Child labour - so these are all things which are not normally discussed in economics. We have therefore, the real problem - the dimensions - which I call social dimensions - are at risk because it is assumed by all these people - I am writing and about to finish a book where I quote all the concerns and worries and phobias and fears of these groups and then work backwards to see if it makes any sense in the light of what we know from different studies in economics, sociology and

everything and so on and does not make any sense. So, the key question is the way one defines it, these particular groups which I take seriously actually, not the ones who are rampaging and razing. They are all gone off to Brazil and other places fortunately but these residual trade movements which is in place has an active globalisation attitude and what its main argument is that globalisation needs a human face that is what Tony Blair says, Gerhard Shrewder says, Bill Clinton used to say and that is the slogan "globalisation needs a human face" - by which they mean of course, that it lacks one - if it needs one, does not have one, right? So, if it lacks one, they mean, essentially the globalisation is not really good for all these different social and moral dimensions as it were. But things are simply made worse by the globalisation I mean, the sophisticated version is not all these things are brought about by gender inequalities are the result of globalisation. Because that is the fears of Adam and Eve - if you believe in that Garden of Eden. These unpleasant outcomes are worsened rather ameliorated and therefore we need to do something about it and so that is one argument that it really lacks a human face or needs a human face and therefore, we need to worry. Take approach to policy intervention in that case. What would be your policy interventions, if you are not a libertarian and simply did not want to respond to that situation? But then you want to challenge it, inhibit it, handicap it, and throw little sand into the gears and if you are really truly concerned and agitated about this, you did not want to throw the sand into the engine itself so that it stops altogether. So, you find all these varying attitudes on the part of those people who believed that it lacks a human face. And there is again Mrs. Mary Robertson, who has just retired from UN High Commission for Human Rights, she has now set-up a one person Commission of her own, calling for ethical globalisation, which



is another way to, I think, she must share this view certainly and so lot of people share this.

On the other hand, if you believe, and that is what I am going to argue now, that globalisation *has* a human face, meaning, even on these dimensions, many of which I have listed, that actually economic globalisation and I am talking only about economic globalisation throughout this lecture, that in fact, it tends, by and large, to advance these agendas, not to actually harm them, that if you really have economic globalisation, then on several of these dimensions actually you are better off than worse off that it really helps you, then, the kind of intervention you would go for is to enhance it, supplement it, complement it, to try to accelerate the rate at which these good agendas are achieved and you get a completely different set of interventions. I will give you one example - in child labour. If you really think child labour really hurts, like Sathya Shri does, and he really thinks that globalisation really causes these problems or accentuates them very badly, if you believe that, then you would want to stop globalisation, meaning stop exports and so on, and he does in many of his pronouncements - if you believe - like what I argue about in a moment, then in fact, export market, etc. tend to improve parents' incomes and leads to more education and less children at work then, you would still say, look, what are we going to do about it? What is your policy responses to that and I would say I am not very happy just with the pace at which it is going I want to accelerate it, right? I want to think of additional policies instruments by which I would supplement good things that is being done as a result of prosperity brought about by globalisation by opening upto the international economy and so on. So, then you would say, look, this is a very different time. Then I would say I want to accelerate exports not decelerate them or diminish them



and my view of course is that we would be looking for this policy instruments, because we would want to enhance growth rates. We are no longer happy with 2 per cent miraculous rate of growth that Japan had through out the 19<sup>th</sup> Century and under the Meiji history. Now, today if you do not get 6 per cent, we are unhappy. In the same way, we need to accelerate that pace at which child labour is removed because that is a very worthwhile social objective. We do not want to stick to the pace at which the industrial revolution combined with Factory Act etc. slowly reduced child labour. We want to go faster. So the way I put it of course, is that if a woman shouts, "Help, my husband is beating me up". You do not go to her and say, "Look, hang-in there for 25 years and economic growth, in the meantime, will take care of you". You want to nail that bastard to the wall right away. And the really interesting question is what are those supplementary policy instruments to assist and accelerate the process of familiarisation on to achieve this agenda. You have too many different schools of thought. If you think about the subject matter, among the serious people, right, who are now, setting down now and debating these issues, instead of demonstrating at the streets in a mindless sort of way. Demonstrations of course have a role, because sometimes, if you mind those things, to attract/get the minds of the other people focussed on an issue. But today, we are at the reflection and action stage. And so, now I want to say OK, before I develop the way in which we supplement these things, let me say why I feel that we really have these sessions on many of these issues we are doing better rather than worse at the globalisation.

Let me speak about a couple of things, let me take the gender issue - gender equality. I will give a couple of examples. Just to show the nature of the arguments.

Many people have been worried about the export processing zones, women being given/being used for a little while and then they go back into the hinterland. Many sociologists have actually looked at and said "these young girls come and go back and there is continuous turnover, so there is no accretion of skill" and so on and so forth and there is a sense of exploitation, which is what you find in the literature. But actually if you look at it, some sociological studies actually show that these girls are able to escape from their extremely under privileged homes, they work, accumulate money, their life style changes as the result, because they have been away from home even if you are working 10/12 hours a day, in fact, some of them even choose to do that because you are accumulating money for a dowry or some particular purpose - some of them actually - according to studies, I have seen, do it for inter-studies as I have seen in some cases - not all - actually want to work longer - what we call sweat shop - in terms of working longer - is in fact, a matter of choice because they really want to work for about 2 years or 3 years, go back and they emerge as people more in their own as their personalities develop. But even on that issue, I think, is far more mixed one. But that is where some of the feminists came from and said globalisation, export processing zones, export industries, that is where it came from, they generalize a problem of pay inequality. Women are paid less everywhere around the world. There are several levels which you can discuss it. In the same occupation like you both work in the same department and you get different pay or across different occupations like in European where some sort of objective standard is developed. Or you may want to raise a mega-question like everybody is paid equally with the way the society's norms are made. Women tend to go for the low paying jobs. That is still another form in which the inequality question about

men and women is posed. I do not want to go into those mega questions here. But let me take a simple example of wage inequality within the same kind of job. What has happened actually in terms of international competition? A study by two women, who studied at Harvard, they used a Becker hypothesis (on which Garry Becker got the Nobel Prize a year ago) - the argument is that if you want to pay me more when I am as bright or no brighter than the new madam over there, then that is prejudiced - my favour - male favour - but it is costly because there is a price for prejudice is a positive price because the employer could easily have more women like you and that may raise your wages or reduce my wage in the market place and narrow the differential. That is the hypothesis. In internationally competitive industries, where you really have to every penny counts because of competition, there you will see a faster narrowing of wage differential. Over and above, what you would have with the new changes and the new thinking or the new pressures is to close the gap. And for 20 years in United States these two ladies find that in fact, the wage gap has narrowed in favour of women much faster in internationally competitive industry. So hooray for the globalisation, right? Because this is international competition.

A second one, look at the Japanese women. They are treated like third world women, in the sense that it is a very traditional society which has grown a lot but not on social dimensions. In the 1980s and early 1990s many Japanese friends went abroad. Those were the days of Japanese strength and everybody thought Japan was like superman and Lex Luther combined and everybody was scared to death of the Japanese. Those were the years when Japan was taking over, buying lot of investments, making greenfield investments but the women went only as wives with the executives who were



all men - literally, not one woman was an executive. But they went as wives. Then they saw how wives were being treated in New York or even in England which is a little bit more premature than America in my opinion in those matters - America is in the forefront in women's rights, in my view. They went to European countries but their women were treated substantially well. Well, they observed and when they came back and a silent and active revolution to change. That too can be documented. In the case of Mrs. Yogota or Mrs. Tanaka all these became prominent women. I mean that is unusual all that is part of globalisation - though unintended in this case also - the consequences of globalisation.

The surest way to make rapid social change is to open up your society through these kinds of contacts and that also is served by all kinds of ways. This is also true, of course, culture of globalisation goes on, and students keep coming. The largest number of students at Columbia have come from Japan. In the old days, they used to come and they were just wonderful people, I remember, Prof. Sukhamoy Chakravarty, Presidency College from Calcutta I mean, I always wondered how, in the land of great egalitarian objective, I see students graduated coming from Calcutta and go straight on to the floor before Prof. Sukhamoy Chakravarty and I used to be very impressed - rather envious - I am sure, nobody from Gujarat or Bombay would have done that but in the same way, the Japanese students would always bow gracefully and call you *Sen Say*, which is a revered teacher, and I used to love it because no American student would do that. Then, in 15 years, they learnt how to put their feet up on their table and blow the bubble gums and so on, and all is gone of all those respectful behaviours and so on. That is also a cultural change - in direction of greater egalitarianism, greater sense of independence all of which leads to a variety of things which we are associated with. Respect for people, and not

disrespect for status; and that is the kind of thing. So both, cultural globalisation and economic globalisation tend to do that.

So now, let me go to child labour. It is true that if you are wicked parents and if suddenly the rate of return improves on using them, you are likely to - and if you are wicked parent - put another child at work rather than taking it to school. It is myopia and wickedness, if you do that. Well, fortunately, the poor parents in most countries are like rich parents, they want a better life for their children. So it is actually, what the economists call "if you look at the consumption, meaning that you are trying to do something for the children, rather than investment, what you do, then it is actually good if you buy as your incomes improve. As an investment also, if the economy is growing, then the rate of return to education, because of the increased possibility of finding jobs, everything else starts the system remaining the same that will then shift the margin in your decision making away from sending children to work. There are many studies which show that people are credit constrained, they can not borrow in order to send children to school against future income. So that perhaps equate the constraints. And there are many studies again by Indian economists - some of them are my own students - like Priyaranjan, in particular, who is in California now, teaching - and they show that credit constraints actually works and if you relax the credit constraint meaning poor people are able to make the investment in children's' education, that does lead to more education. So there are variety of economic arguments of the kind I mentioned from consumption good and investment good theory to showing that actually more prosperity, general and your own, does tend to do a thing like making compulsory primary education come alive because it can have all the laws of books you want. The question is what are

the incentives by which people will actually use those laws and so, that is where you now begin to look at the several studies but there is one which is particularly interesting because that is for Vietnam, where there is export control on the rice, and 1993 to 1999 the income went up nearly 30 per cent because they eliminated the controls on export of rice leading to rise in the income dramatically. The great thing was that large numbers of children were then just simply taken off - working on the farms - and were sent to schools and one thing the feminists and also the productivity oriented people will applaud that many girls were also part of the beneficiaries of this outcome.

So, if you go and look at the body of the literature which is developing, and with various serious econometric work on the problem of child labour, it really shows that this concern that globalisation is somehow harmful, that is the sort of thing they always told me South Asian coalition continues to mediate about . I mean, it is a great body and its concern is wonderful and I am talking about the arguments and the specific assignment of blame on creation of solutions. I think this is where you find again a very different outcome.

Then let me talk about poverty in the poor countries. Does that really harm you? But this is where I find most ridiculous to say that globalisation actually harms the poor. Poverty and lots of people in the West like to believe that, particularly the Western NGOs - I do not know how many NGOs here believe that and I think some economists here may believe it - but certainly if you look at it, which are the two countries which have specialised in poverty, India and China. Between us, we have about 60 per cent of the world's poor. What has happened in these two countries? During the years - that was in sixties and seventies in particular, the countries were out of target, very much inward



looking. We had 3-1/2 per cent growth rate. It was not entirely due to our target, it is usually a package of bad policies. So trade, hope globalisation is not the only one. There is nothing about globalisation or its absence, which says you can have extensive controls and stifle all activities or innovations and so on. I mean, that can be done regardless of whether you are open or close. Though, of course, if you are close it makes it a bit easier to maintain that. So, there are a number of bad policies which tended to go together in both countries and certainly in China and we got very low growth rates in both these countries and poverty kept increasing. We could not make a sustained impact. With the 3-1/2 per cent growth rate over a quarter of a century, it is very difficult to pull people up into gainful employment. Because growth is an activist strategy, it is not a trickle down like Mrs. Thatcher believed that was a crazy notion to say that poverty trickles down because it would really pull up strategy. More rapidly the growth, the more jobs you create, the more people who are underemployed, under the poverty line, are likely to be employed by and then the nature of the growth is important. If it is labour intensive then even better but growth is certainly a cause of it. As soon as we went into rapid growth since the 1980s both countries really began to rise. China opened up much more dramatically, we have been moving in that direction - in the eighties slow moves, after nineties more acceleration. Our trade barriers are down by about 75 per cent to about 25 per cent or little bit less but still high, still we have come down a big distance which was really our target. We had 100 million dollar of equity investment in 1991 when Manmohan Singh started his reforms. I was writing something on it and I saw hundred million - and that is less than the budget of my University and I said there must be a zero missing - I do not have much of a sense of the magnitude of numbers though - and I said

100 million is too little but that was actually true - that was the amount of equity amount in India - I could not believe it - so we had really gone off - then we opened up, of course, much more and the effect has been as part of elimination of controls and so on the investment licensing but again, not just globalisation but a package of policies in which globalisation has played a role. All that has changed the growth rate dramatically and as I often say, sometimes, economics and common sense do go together - if you do grow faster, you will employ more people and you have seen an impact on poverty. After all, the debate we always have among the economists and there is an agreement now that poverty, is given, the disagreement is of course by how much on numbers, the economists will always par because it is hard to put numbers on these things, particularly when you are dealing with something like poverty. So, I think, in both countries, you have a dramatic effect on poverty. This is where again, the facts are exactly the opposite of what the fears are that somehow opening up will create great deal of poor and the last one, very quickly, is simply the fear of the West.

Trade with poor countries is not causing poor people to emerge or to be increased. But fears of the races are the real ones. They really feel that competing with countries with low standards is going to reduce their hard earned labour standards that they won over struggle, trade union struggles over several decades, actually. And if you are in a big fight and the last thing that they want is to return to some kind of the model that you had in the late 19<sup>th</sup> century when your labour standards were like those of the poor countries. So that is the biggest worry at the moment and which animates quite a lot of people there. And that is actually misplaced also.

Many of these hypotheses or fears are actually plausible experts blush they are, completely cockeyed, when you analyse them that grossly exaggerates - realities seem to be the other way and why is it that the standards are not at stake in the advanced countries. It is precisely because their institutions are so strong and the power of their NGOs and the unions like the Democratic Party, is so strong that there is simply no way - no evidence at all that any labour standard has fallen in any activity which is internationally competitive. I look at two industries - the California furniture industry disappeared across real gran into Mexico where there were no standards because late paying standards in California were rather strict. It went off across the border to what I call murkier door. What happened in California, as a result, did they revise their standards down? No. I called up at their office just two weeks ago and they said, ever since 1993, our standards have only increased rather than decreased and that is because Californian strong institutions have been pushing for that. You look at the garment industry, which is intensively competitive around the world. No effect can be traced there. All the low standards - there is no deterioration in standards - all are low standards because there are six inspectors in the entire United States examining for a chance. No enforcement in effect and have got illegal workers - illegal immigrants - who simply cannot assert their rights, therefore, if you abuse them, they can do nothing. So, it has nothing to do with globalisation. Unless you say importation of workers or letting them come in - that is a very different issue. So, I think, there is great strength in these institutions. So, what are they doing actually, rather than allowing their own standards to diminish, which simply would not happen, particularly with the NGOs and environment groups are on, you therefore, get pressure in the other direction to raise our standards to



protect them. So, there is no fear of decline in their standards. Instead, all the politics is now going into saying, India etc. have low standards and they must be raised.

Now if you are a closed economy, what would you say. "If I have to have environmental standards, and if I am polluting and I am paying a pollution tax, that means, that my own industry will contract" - that is a flip side of saying, I must pay for my pollution. So, he will benefit because he is not doing any pollution. So, when I say "I want these high standards in non-pollution in a closed economy", at the same time, say, "I have got to pay for my virtue, right?" I have to contract. That is the flip side of it. But when it comes in an international system, what do these wonderful people say? Then they said "No, if we have to contract because Indian standards are low, then that is not social, that is not fair. We have to force their standards up, so that we can lead a more comfortable life". There is hypocrisy at that level rather than at the other kinds of levels that have been talked about. But the point is that there is no fear. The pressure is all for to rise to the top and getting us to do that.

So, when you look at all of these things, I would simply say, I have just given you a flavour of the kinds of the arguments and say we, who are for economic globalisation, we need not fear that it lacks a human face or needs one. It already has one and in everything examined including culture and I have no time to go into all the variety of things. There are some places where you need to be really firm and have some corrective actions, which are more necessary. But in many cases, the central tendency seems to come out, on the rise.

Now, So, let me say that it has a human face but the sub-title also says that we can do better. That is where the complementary and supplementary policies come in. Let me just mention three and then finish and then we can take Q and A.

The first one is simply, that economists do not have one to one relations with anything. They are occasionally downsized. When I say something good is going to happen, as a central tendency or a dominant tendency - that is all it is. But there is always a downside. So if something goes wrong, or as a result of export opportunity, say, something happens to, by way of environmental damage, despite whatever governmental measures you might have, then what you do, you can not say, look, by and large it is good for environment because as Bhagwati has pointed out - but that is the by and large part - but you have to have a machinery to handle this and like if you take coastal shrimp farming, which is like 95 per cent of our total shrimp production at the moment. That has become a human rights issue. And the reason is that it discharges a number of pesticides and effluents which then affect the surrounding mangrove areas. Now, it is taken up by human rights groups who are looking at the effect on the people who are in the traditional farming and so on who are being damaged. But from an environmental point of view, it is simply a case where nobody is paying attention to the environmental damage. So, what do we do about that? Do we stop shrimp export? Now, all the NGOs want the shrimp export to be stopped and even Supreme Court passed a judgement, I am told, ruling that shrimp exports should be stopped. Now, that is cockeyed thing to do, in my opinion. Because, what you want to do is to have a pollutant to pay the principal involved. And for the past damage, you want to bring in, what the Americans call a super fund approach, which is a clean up and if it was done knowingly, like inside a movie or

Russells Crowe, where the tobacco companies knew that there is going to be damage. So, these people who are engaged in, in shrimp farming, they knew that they were damaging the mangroves, then they should be asked and taught to pay for it. But we have an Environmental Ministry, which could do that - implement those clauses - rather than stop shrimp export. So, this is where I say, what you need is an institutional structure. I think, in India there is a general thing that we tend to stop things which are good just because there might be a small downside damage and we just act instead of having a machinery to deal with the downsizing of the damage if and when it materialises, we just tend to go and say "stop it". Like modern industry - reform of the textile industry, but today we do not even fill our export orders. And now we are facing with the abolition of MFA, which is the 5-year agreement in textile. In 2005 when it disappears, and then Chinese will take over all our markets. Because, in the interest of the small scale sector, we prevented the modernisation and expansion of the larger. So what used to be my home-town Ahmedabad, which used to be the textile Lancashire of India, has been allowed to go downhill. You say, Bhagwati does not care about small ones. No I do care about small industries but in a small way - not in a big way. If you are a growing economy, people will find out a job. As a transition, yes, but do you really want to stop the large-scale expansion on the assumption that it will necessarily hurt the small guys? The sort of things these small fellows produce, we probably would not even buy. There is a continuum of products or if you take soap for example, the soap that is produced in a small-scale sector you would not really use it as soap. I mean, we do not even recognise it as soap. We only used to export it in the olden days when we had to pay for whatever they gave us. We used to export razor blades which did not cut



anything and not even butter but that is if you have a captive market you can do that. But the large scale expansion of Unilever and other these soap, why assume that these are going to crowd these guys up? They may live merrily or whatever level they if it happens, then we will move with assistance. So we are preemptive strikers. And this is the kind of thing that we need to worry about.

Secondly, I think we also need to accentuate, supplement and enhance the rate at which it happens. I already talked of that and I think there are many policies. Here the real debate on things like child labour is your state sanctions against advances or you work with the NGOs and do the heavy lifting that is necessary and there are lots of programmes now that governments work with NGOs. ILO chips in with their programmes. So just having trade sanctions as a way of advancing - reducing child labour is not a productive, in fact it is even counter-productive. When a Bill was being discussed, by Senator Harkins on Child Labour Deterrence Act, the very fact that it was being discussed the Bangladeshi textiles mills actually discharged a number of young children who used to come with their mothers to work in 19<sup>th</sup> century style, and what happened then was that lot of girls wound up in prostitution because that was the next alternative. So you cannot just say that I am going to use trade sanctions because it sounds good. If you really want these social agendas advance, anyone who has worked with these NGOs etc. knows how difficult it is to really have to work at it with commitment, resources, persistence and so on. There is no easy short-cut like trade sanctions, like the Americans typically want it to be done. Sometimes I wonder what is it in the American temperament, because anytime they like or dislike something immediately they want to crack a whip. It is an absurd way to do it. Trade sanctions are

clearly what the Congressmen prefers or everybody prefers. So, we are fighting that approach as well. And the last one, of course, is the speed at which you go towards globalisation. I think there you have to be sensible. I never double guess bureaucrats and politicians, I mean, I only look to see whether in fact, they are moving in the right direction, because they are negotiating mine-fields and trying to get things dismantled, to get policies to change and I often feel that these economists like us when ---- we were talking with Sachin Taran and with politicians like C. Subramanian, even Panditji and so on and at that time contrary to what most people believed, the slate was more or less clean, they were really asking us for advice which was almost technical like what should we do in order to have the country grow fast. True, Panditji etc. had faith in socialism and so on but it was not such a doctrinaire thing. I mean, they were still looking for ideas and if we had told them that with this kind of planning etc. is not going to be correct, you know, excessive controls and so on and I am sure, Panditji would have - because I of course adore him, I never criticize him - I think he would have changed, almost certainly knowing whatever I do know about him. But what we did was to actually give him a set of proposals and we all wrote about it. You can read the old issues of EPW and I am there also, you know, talking about further simplifications, controls, our target because that was the bus we were riding, coming back from the educational road. Well, I got off the bus after looking at what was actually going on, so more pragmatically, but still some people still are in the same bus and they want to go on in the same tradition. But now many of us have got out of the bus and say look, now you change and move towards these reforms, you see, by this time the lobbying interest, politics, everything has got and grown around. These kinds of advices which we gave and now we have changed our

minds and then we go and tell politicians – you are too slow but we were the ones who set their mind-set, to begin with. So, I have a little kindness and more sense of realism, than most of my colleagues who get impatient and I look for the people who want to push in the right direction. So, I think, this is where we need to worry about. You see, the dramatic effect of bad advising “Go fast, Go fast”, which is a very technical approach, at some level. You see that in Russia, where my other colleague Jeffrey Sachs as I mentioned, he advocated shock therapy. He wanted the budget deficit to be reduced in six months from 20 per cent of GNP to zero and Prime Minister approved that. They did not have too much familiarity. But some people, including my wife, who is a Russian experts, said that this is asking for suicide because it will never get passed in the Parliament because Parliament members are elected for most of the part and no Parliament is ever going to accept this. If you propose something like this in United States, they will say, “Go back, and teach at Columbia and do not come and waste our time.” So you have to work with it, create public perception and in Russia they just did right out. And then of course, what happened, they just collapsed, right away. So the argument was, as Jeffrey was saying, shock therapy was never tried because it did not work. But the argument of people like my wife was that it will not work because it will be rejected once you attempt it. So, fact says now that it will be never tried because it was given up. But the whole point was that people said that if you try at it, it will never work. And you will have to give it up. So, he is simply not correct. You use analogies like you can not cross a chasm - a big divide in two jumps. My wife in a public debate told them that you can not cross in one either unless you are Indiana Jones otherwise you drop a bridge so on and so forth. But, I think, the chief lesson is that we need to make



politicians be aware of the climate for these reforms, which I do not see very much happening in India either, but I think we need that as this is something that is missing but then we need to have a sense of proportion, about proper speed things are moving and I think things are moving too little in many cases like the privatisation. Because it is a very deep problem. How do you politically deal with this deep problem. It is something we would like to push. I think, as an economist, this is something a task for we economists and I think Sir Chintaman would have approved of it. We must say, what is in fact, desirable and then we need not be concerned about making political compromises in terms of what is desirable in terms of the ultimate destination you want to get to. Be absolutely clear about that and not play political things there. But when it comes to making the transition, to be realistic, to back people, who are actually going to be able to do it, in a sensible way. Because in a democratic system, you have to carry public opinion with you, and you can not just say, I am going to propose something, because that again would not be a sustainable solution at all. So, my view, essentially is that with these kinds of riders, policy interventions, which I call it as appropriate governance, to manage globalisation, but not in order to – not from a sense that it really is against social outcomes, socially desirable but it is really citizens who are worried about these different aspects, which I mentioned. But on balance economic globalisation, is a good thing. So we need to supplement it, complement it and enhance it – not just go out into the political space and say this is all lousy, it sounds unethical. Because if you do that you are not going to be – you are going to create more problems for yourself. I told Mr. Clinton, one time I met him I said, “you can not go around saying, globalisation needs a human face and then say, I could not manage to get the new round declared at Seattle. I say, you are

giving room to these people to some extent, that it lacks human face. If I believed that lacked a human face, I would have been out on the streets with those kids too. I mean, economic prosperity is good but, with all these other dimensions, which appeal to us as human beings, sensible citizens, if things are going down hill because of this then I will throw the globalisation out of the window. Fortunately, I do not have to.

Thank you.

-o0o-