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CENTRE FOR CIVIL SOCIETY organised seminar - Friedman on India: From Independence to Freedom

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Report by Santanu Ganguly, New Delhi: On 15 August, Centre for Civil Society successfully hosted Friedman on India—a panel discussion on Milton Friedman’s ideas for policy reform in India—at the India Habitat Centre. Chaired by Luis Miranda, former chairman of IDFC Private Equity, this panel shed light on Friedman’s views on Indian economic policy and the need for economic freedom to accompany political and social freedom. It was fitting to host the event on our independence day—a day intended to mark our freedom.



With every seat occupied in the Gulmohar Hall, attendees got a glimpse of Milton Friedman’s visit to India in 1955, and his insight on how the post 1947 government’s plans to eradicate poverty through central direction and control set India on a course away from growth and development. 65 years post independence, millions of Indians still struggle under the weight of the license raj and hundreds of thousands of children lack choice of quality education, simply because the markets are not free. According to the 2012 Index of Economic Freedom, India ranks 123 under “Mostly Un-Free,” below Pakistan. The Index on Economic Freedom illustrates an indisputable positive correlation between economic freedom (free markets) and prosperity.

The panel began with comments from Jaithirth Rao, founder of Mphasis and awarded entrepreneur, who argued that Milton Friedman based his arguments for free markets on a consequential approach—he cared about the outcomes and implications of policy on the ordinary person. He accepted the goals of the Planning Commission to eradicate poverty, but knew their centralised planning approach would not accomplish these goals. History, Mr Rao argued, is on the side of Milton Friedman—“Every single physical target set has failed, yet we continue to remain on the defensive.” Mr Rao also pointed out that the ideas of Friedman were not foreign to India; economists such as BR Shenoy and Minoo Masani along with CR Rajagopalachari had been opposed to the system of controls and licenses set up by the government in the 50s and 60s. The Five Year Plans to centralise market activity through licensing and overbearing regulation were intended to remove poverty. However, this straitjacket approach of India’s paternalistic government has hindered India’s development.

Parth J Shah extended Mr Rao’s point as he reflected on the memorandum Friedman wrote to the Government of India in 1955, advocating for market-led growth, liberalising the economy and ameliorating productivity and skills. At that time, Friedman recognised where India’s greatest strength rested: the enterprising poor. He argued that the most meaningful way we can strengthen our society and the informal sector is by investing in quality and affordable education. The government of India noted Friedman’s intellectual position and invited him later in 1956 to visit. Friedman had often argued for an open and inclusive education system through providing choice and encouraging competition, and Dr Shah was convinced that Friedman’s ideas of school choice were of utmost importance even today for India to grow and tackle poverty.

Friedman knew that the Planning Commission would fail to eradicate poverty and achieve development because it was applying the wrong means. Instead of liberating human creativity, it restricted it. Instead of allowing successful business to grow and unsuccessful ones to shrink, it shielded enterprise from competition. Milton Friedman’s advice for India was simple: permit all voluntary transactions in the market. Demolish the licensing system and permit universal free trade. Let people be free to choose. Friedman, in 1963, wrote that India had what it needed to blossom into a state of prosperity, “India lacks none of the basic requisites for economic growth except a proper economic policy.” PDF download available on Milton Friedman on India here.

The panel discussion centered on how Friedman’s ideas are still relevant to India’s current policy challenges. Participants asked the panelists incisive questions about how we could effectively move towards a freer economy. Jaithirth Rao argued that our desire to grow has to be in sync with our ‘appetite to take risks’, and this would require some radical policy changes and some gradual ones. Parth J Shah and Luis Miranda both argued that we should not condemn the markets for failing if they cannot operate free from state control, and the reasoning used by the government for protective controls was flawed and counter-productive. Questions on the realistic transition from central planning to free markets were answered with examples that are currently being tested in the Indian market. Using the context of education, Dr Shah spoke about voucher programs that Centre for Civil Society has piloted in India through its School Choice Campaign that aim to provide quality and affordable education to children from economically weaker sections of society. Mr Miranda reflected on promoting competition in the US and Europe that allow Charter or Free Schools to compete with government schools, enabling competition to create a fluid transition.

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Two questions from the discussion about the applicability of Friedman's ideas in today's context are outlined below:

Q 1: What should we do about corruption? How do we reduce 'crony' capitalism?

Let competition resolve the issue of corruption. Established businesses tend to be against competition and free markets because they threaten their established positions. They always try to get special dispensations from the government to give them subsidies and to protect them from competition. If the government allowed for competition, demolished the licensing system and applied an impartial rule of law that does not allow governments to give special privileges to any business, corruption would reduce. Economic Freedom Index shows an inverse relationship between economic freedom and corruption: higher the economic freedom in a country, lesser the corruption.

Q2: What should we learn from the financial crisis of 2008?

We cannot blame the markets for activities they do not have complete control over. How can the market regulate itself or be blamed for systematic financial problems when one half of every transaction—money—is not controlled by the market? A solution is to put money into the market; have private institutions print the currency that works for their business. This is similar to any company producing a product to sell its services.

A little risk is also required. Even if volatility and risk are an inherent part of free markets, economic growth would be worth the volatility when the alternative is stagnation and poverty. By protecting yourself from risk and change, you ensure poverty and stagnation.

Centre for Civil Society is a globally recognised public policy think tank advancing personal, social, economic and political freedoms. The Centre challenges conventional wisdom to usher an intellectual revolution that encourages people to look beyond the obvious, think beyond good intentions and act beyond activism. Through research, outreach and advocacy, the Centre aims to promote choice, competition and community based policy reforms.

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